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Strategic analysis of the Volkswagen Group

Strategic Management Sustainability

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Introduction

Strategic management and gaining stability is a choice every company must make for its competitive advantage. These strategies include one or more methods related to functionality, product selection and target customer selection. Choosing the right strategy helps build customer value and leads to long-term competitive advantage.

Main Body

Company Background

Volkswagen Group is a German automobile company. The company is the second largest vehicle manufacturer after Toyota. It manages 12 subsidiaries that represent the various brands in the Group's portfolio. The company has over 120 manufacturing plants and over 800,000 employees worldwide. The report aims to define how the company is dealing with the changing environment. The strategies undertaken by Volkswagen for the purpose of stability and competitiveness. (Volkswagen Group, 2022)

SWOT Analysis

It helps to explore the relationships between the influence of the external environment and the company's R&C compared to that of competitors. (Johnson, et al., 2017)

Internal factors

Strength

- Strong brand name. Volkswagen has the largest portfolio of 12 different vehicle brands including cars, motorcycles, buses, trucks (Appendix-A). (Johnson, et al., 2017)
- Strategy "Together - 2025" aims to bring the company to long-term stability through:
 - A complete change of vision oriented towards responsibility for protecting the planet from harmful emissions through the production of electric vehicles.
 - New investments in R&D for technology improvement and differentiation. in the development of intelligent systems, autonomous cars, digitalization, long-life e-batteries.
- Risk allocation

A good distribution of risk between different brands, countries, consumer segments leads to multiple sources of income.

- Large-scale production and optimization of the production cycle lead to economies of scale. (Volkswagen AG, 2021)

Weaknesses

- Decline in confidence in the VW Group after the Dieselgate scandal in 2015.

According to the Case Study: Software code installed in diesel cars aimed at manipulating emissions tests cost the company huge losses in fines, damages of €16 billion. (BBC, 2015)

- VW is the company has numerous recalled cars from the market worldwide. The reasons are the Dieselgate scandal, system errors and others. The latest information in 2022, for 100,000 recalled cars, with Plug-in fire risk. (Autonews, 2022)
- Although VW is among the largest manufacturers in the world, it still has a low market share of 5% in America in 2020. A larger market share in the US would bring the company serious profits. (Volkswagen AG, 2020)

External Factors

Opportunities

- Strategic positions through Joint Ventures: Joint Ventures with Chinese car companies contribute to Volkswagen becoming the 2nd largest car manufacturer in China, offering over 160 vehicle models.
- Diversification – Volkswagen is a typical example of successful horizontal and vertical integration (Appendix-B)
- Growth in the market of e-vehicles: This is an exceptional opportunity for the company, after the implementation of the complete transformation strategy in the direction of e-cars. According to MarketLine, the market value forecast will grow by 130% over the period 2021-2026. (Appendix-C) (MarketLine, 2021)

- Increased fuel prices, as a result of Covid 19 and the War in Ukraine, lead to a greater demand for economical vehicles. The company can handle this external factor with ease due to the wide variety of brands and the availability of small, economical and electric cars.
- One of the strategies for technological and development is through the acquisition of smaller companies with Know-How technologies, necessary for the development of the company in the direction of improving: battery technology, digitized services and autonomous cars.
- The decrease in the exchange rate of the euro against the dollar does not affect VW's earnings, because the cash flows mainly come from Europe (Appendix-D), where the euro is mainly used.
- The numerous government regulations worldwide are forcing a radical change in the production and operation of cars. Countries such as Great Britain and France have already passed a law to end the sale of diesel vehicles by 2040. This external factor cannot currently affect the company. The "Zero Emissions" strategy contributes to long-term stability, a strategic advantage in the field of environmental protection.

(Volkswagen AG, 2021)

Threats

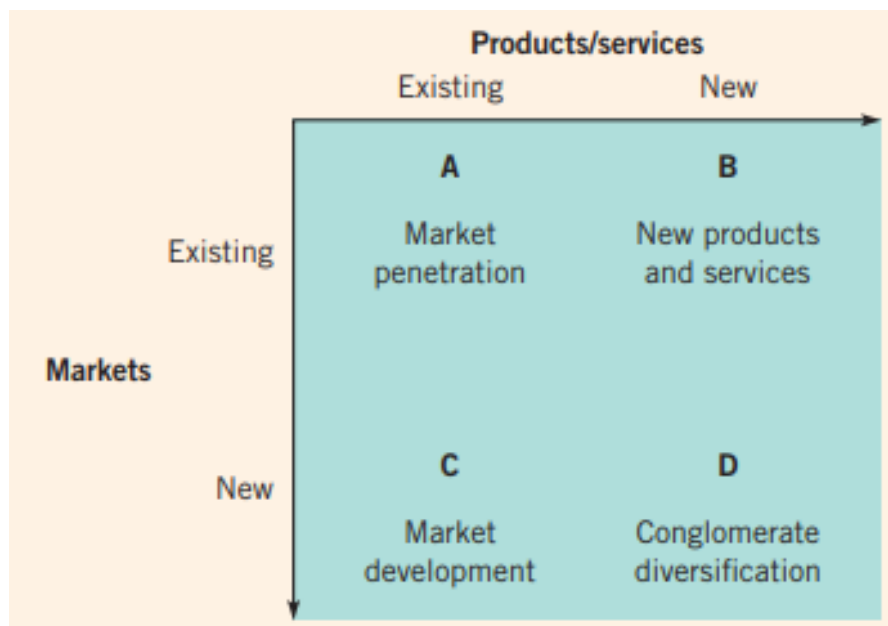
In recent years, competition in the automotive industry has become increasingly intense.

- Many of the brands offer cars at similar prices with similar quality, which according to Porter's 5 forces, leads to Competitive Rivalry in the industry. (Johnson & Whittington, 2017)
- Volkswagen's new technologies are easy to imitate by its major competitors (GM Motors, Toyota), leading to Threats of Substitute.
- The threat of entry by new players is moderately intense as there are high financial barriers to entry. But for powerful conglomerate companies like Tesla, Google, it does not pose much difficulty to enter the industry.
- Supply of cars exceeds demand, resulting in Customer Power and easy switching from one supplier to another.

(Johnson & Whittington, 2017) (Volkswagen AG, 2020)

Ansoff matrix

Ansoff's matrix shows the company's strategic choices and the areas in which it should grow. According to the matrix, the Company can develop using 2 directions (axes) of diversification - increasing the variety of products/services for its existing customers or conquering new markets with existing products. Diversification can be related, as the company can direct its development towards the production and offering of new products/services that are similar to the existing ones in the company. Unrelated Diversification involves investing in new products/services different from existing ones. (Johnson & Whittington, 2017)



Market entry. Most companies that have a non-diversified business position themselves in an existing market with an existing product. If the company does not take strategic action on Porter's 5 forces or Diversification, there is a good chance that competitors will capture its market share.

Product development is when companies create new or modified products and market them to their existing markets. (Johnson & Whittington, 2017) The Volkswagen Group is a perfect example of product development and modification. The company is known for its portfolio of makes and models of cars, motorcycles, heavy-duty trucks and their continuous improvement.

After launching the new strategy Together 2025, the company took a huge step in developing Electric Cars. The strategy led to the necessary assimilation of new processes and

technologies unknown to Volkswagen. Although the production technologies are different, this is an example of related diversification, due to the similarity of the products and the use of the same distribution channels. The new electric cars are planned to include high mobility, digitization, high technology, artificial intelligence, in the next 3 years the first autonomous car is expected to go on sale. (Volkswagen AG, 2021)

The development of electric cars and high-tech products carries financial risks, even when the company aims to offer them in existing and well-known markets.

Market development includes conquering new markets by offering existing products/services. For many companies, this strategy is preferred because it does not require high investments and is significantly faster to implement. Market share can develop in two ways, through new consumer groups or new geographic areas. (Johnson & Whittington, 2017) By building a diverse portfolio of cars, Volkswagen has had the strategy to satisfy different consumer needs and markets, offering varieties from small economy cars to powerful luxury cars. The main markets and biggest sources of income for the company are Western Europe and China (Appendix-D). (Volkswagen AG, 2020)

In the launched "Together" strategy, a plan for regional development is included. Volkswagen plans large-scale investments in fast-growing markets and the creation of local partnerships in China, North America, Asia. To achieve its goals of entering and developing foreign markets, Volkswagen uses multiple strategies: Joint Venture, Entry Strategy, Export Strategy and Strategic Alliance. Alliances with foreign companies would be useful for better understanding of local tastes, preferences, culture. The actions taken can be defined as related diversification, as the company attempts to offer existing products in new markets. (Volkswagen AG, 2021)

Vertical integration

Through vertical integration (backward), the company creates its own units for the production of parts, components, batteries. Thus, the company plays the role of its own supplier. The goal of the strategy is to increase quality and repeatedly reduce costs, which is a prerequisite for a competitive final price per unit. (Appendix-B)

Through vertical integration (forward), the company aims to offer services to its end users. In this way, the company has closer access to consumers and good feedback. The company has

built a huge distribution network to reach over 120 countries. Plans to build service stations and charging points around the world aim to contribute to higher demand for vehicles from the Group's portfolio. (Volkswagen AG, 2021)

Analysing the actions and strategies of the Volkswagen Group, it can be said that the company has committed to the Strategy of Related Diversification, both horizontally and vertically to gain stability, competitive advantage and create value for customers. Expanding production and markets would lead to economies of scale, risk sharing across markets, and even greater market power.

Resources and Capabilities

Defining the company's R&C is of great importance, through them one can gain an idea of the competitive advantages and the value that the company creates for its customers. Their correct use is a prerequisite for long-term stability and competitive advantage. R&C are subdivided into:

- **Tangible** – or physical resources such as buildings, equipment, materials.
- **Intangible** - non-physical resources that contribute to the value of the company, for example software, technology, brand and others.
- **Capabilities** – is expressed in the skills and techniques through which the company manages its assets, for example management style, strategies undertaken.

R&C are subdivided into two main groups, Threshold and Distinctive.

- **Threshold** – are the basic and most necessary R&Cs which are essential for the existence of the company in the long run.
 - **Distinctive** - are those R&Cs that contribute to an additional competitive advantage and that can lead the company to stability in the long term. For example, product/service uniqueness that is difficult for competitors to imitate and adds value to customers.
- (Johnson & Whittington, 2017)

VRIO Analysis

It is a tool through which the company's resources are evaluated and to what extent they bring it a strategic advantage. The analysis identifies long-term competitive advantages and R&C that contribute to the company's sustainability. The analysis is based on 4 factors including Distinctive R&C (Johnson & Whittington, 2017):

1. Value

These are R&Cs that contribute to building value for customers and help address threats from the internal and external environment. (Johnson & Whittington, 2017)

Capabilities that eliminate threats:

- Price – The wide product portfolio allows the company to cover different consumer groups, according to their purchasing power. Volkswagen has always strived to offer prices that are accessible to a large mass of people.

- Quality – The company has a reputation for producing quality vehicles, even for vehicles in the low price range.

The combination of high quality vehicles and affordable prices creates value for customers

- Services – The company has built numerous service units where customers can maintain their cars. (Volkswagen AG, 2020)

2. Rarity

R&Cs that add value but are easy to imitate cannot be a prerequisite for long-term competitive advantage. (Johnson & Whittington, 2017)

- Cost leadership: Volkswagen Group strives to avoid threats by optimizing and reducing its production costs, while maintaining the quality of its products. In this way, the company reduced the final price but kept its profits.

- The diversification strategy largely helps to reduce its costs, as in this case the company is its supplier and customer at the same time. The worldwide distribution system contributes to high availability in over 120 countries.

- The ability to operate in multiple countries allows for building a huge number of users.

- High propensity to take on risky strategies, such as the transformational "Together-2025 Strategy".

- Adaptation to different cultures - examples of this are global sales, creation of successful Alliances and Joint Ventures with foreign companies. (Volkswagen AG, 2021)

3. Inimitability

These are R&Cs that are expensive or hard to find, making them difficult to imitate or substitute. In most cases these are Intangible R&C. (Johnson & Whittington, 2017)

- The Group's image is a prerequisite for high recognition, trust and loyalty to the brand, this cannot be imitated.

- Characteristic ambiguity. Volkswagen's ability to anticipate customer needs through feedback channels. In this way, the company successfully introduces new trends in the offer.

- Linkage ambiguity. A set of brand qualities that contribute to a unique customer experience. (Volkswagen AG, 2020)

4. Organization

All organizational capabilities that are rare, difficult to imitate and contribute to competitive advantage. (Johnson & Whittington, 2017)

- Financial strength - The differentiation of investments between different brands and locations contributes to risk distribution. This leads to multiple sources of revenue and contributes to the enormous financial strength of the company. Volkswagen's finances are at the core of the successful launch of the "Together" transformation strategy. The continuous development of the Group and uncompromising quality of products leads to great interest from interested parties - customers, investors and others. (Volkswagen AG, 2020)

An example of the good financial situation of the company is the financial data from the annual report for 2020-2021. (Appendix-E) With +12.3% higher sales and +74.8% higher Profits. (Volkswagen AG, 2021)

- Human Resources – The company has highly qualified engineers who monitor quality performance. Training programs for new engineers is at the heart of maintaining a strong and engaged workforce.

- Volkswagen makes huge investments in Research and Development. The company aims to create high-tech products that meet rapidly changing market tastes.

- The company has extremely well-developed distribution channels worldwide. A sophisticated distribution network is a resource that is difficult for many car brands to imitate.

(Volkswagen AG, 2021)

Evaluating Sustainability and Social Responsibility

Through the strategies undertaken, Volkswagen shows that it strives for sustainability by taking into account changes in the environment, social and economic trends. The company's strategies show that they are aligned with "the triple bottom line" (people, planet and profit).

Volkswagen Group is constantly struggling with major constraints and costs that would reduce the company's future profits. It is for this reason that in recent years the company has embarked on a program to reduce overhead costs. The program was planned to be implemented by 2023, but as a result of mobilization and hard work, Volkswagen Group managed to successfully reduce its costs by 4 billion euros compared to 2019. Clearly, the company has a well-functioning team that is able to quickly find the right path towards fulfilling the ambitious goals. (Volkswagen AG, 2021)

It is important for Volkswagen to develop a plan for sustainable production, with the main priority being minimization of production waste, minimization of harmful emissions as a result of car production. Undoubtedly, this strategy will bring countless benefits to the company. By achieving sustainability, the Volkswagen Group will gain a high brand value and a wide range of market opportunities. Reduced levels of waste, recycling and reuse of materials can significantly reduce a company's costs. The more ecologically sustainable they are, the more independent they are of regulatory obstacles related to environmental protection. (Volkswagen AG, 2021)

Recommendations

- The low value of the euro against the dollar makes VW prices more attractive to American citizens. The company can take advantage of this economic factor and increase its market share in the US.
- Clearing the reputation from the Dieselgate Scandal (Link to the Case Study): Volkswagen needs to focus efforts to regain customer trust in the brand. In order to prove it, it is necessary to demonstrate an orientation towards environmental protection and impeccable future results.

Conclusion

All these actions and achievements show that the Volkswagen Group is a highly competitive and difficult opponent to overcome. The technological level that the Group has achieved may prove to be a difficult or impossible goal for other competing brands. It also shows that Volkswagen Group is making it increasingly difficult for new companies to enter the car business. The company demonstrates confidence and stability, which means that it will be one of the leading leaders in the automotive business for a long time to come.

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Appendix

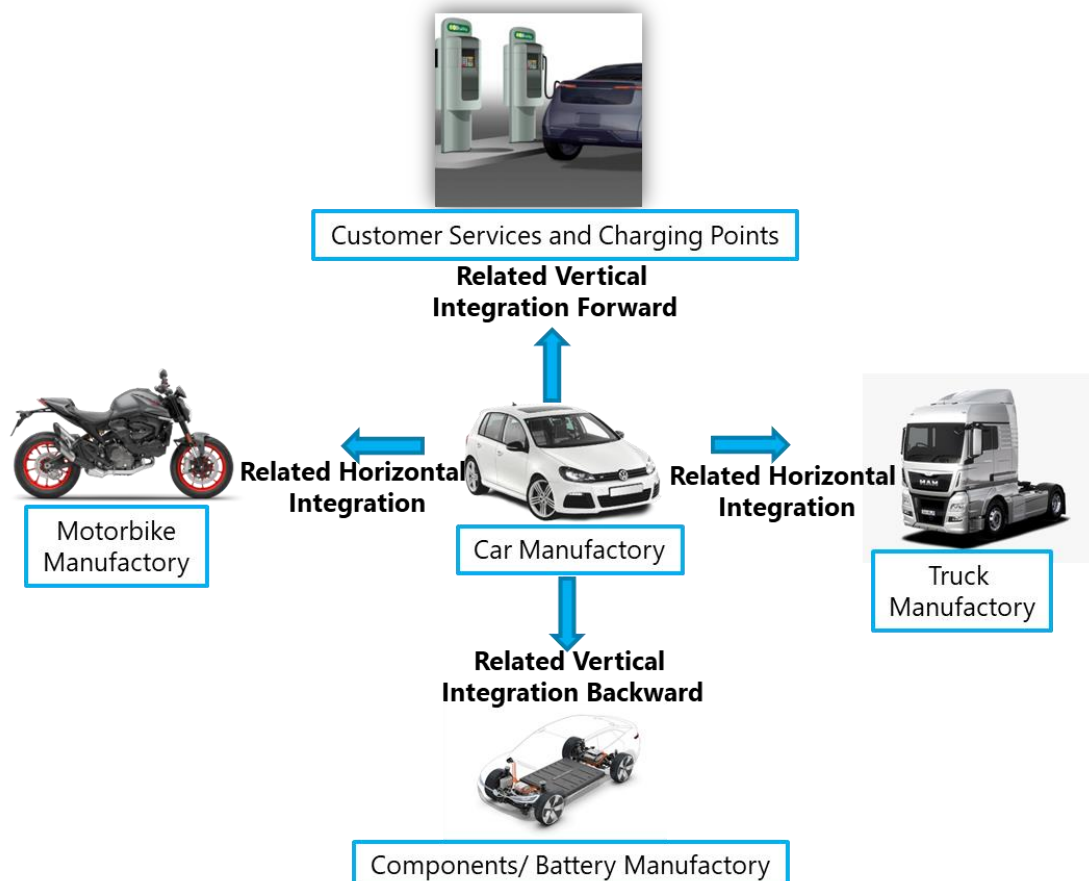
Appendix A - Volkswagen's Portfolio

VOLKSWAGEN

AKTIENGESELLSCHAFT



Appendix B – Diversification



Appendix C – Market Value Forecast

Table 6: Global hybrid & electric cars market value forecast: \$ million, 2021–26			
Year	\$ million	€ million	% Growth
2021	384,850.1	325,267.6	45.0%
2022	470,361.7	397,540.3	22.2%
2023	563,129.2	475,945.5	19.7%
2024	655,857.1	554,317.2	16.5%
2025	773,440.3	653,696.2	17.9%
2026	885,848.1	748,701.0	14.5%
CAGR: 2021–26			18.1%
SOURCE: MARKETLINE			MARKETLINE

Appendix D - VW Group's Main Markets

VW Car Sales	2021
Western Europe	1,086,100
Central and Eastern Europe	206,300
North America	529,100
South America	381,000
China incl. HK	2,428,100
Rest of Asia-Pacific	127,800
Middle East/Africa	138,500
Worldwide	4,896,900

Appendix E – Financial Data

Financial Data (IFRSs), € million	2021	2020	%
Sales revenue	250,200	222,884	+ 12.3
Operating result before special items	20,026	10,607	+ 88.8
Operating return on sales before special items (%)	8.0	4.8	
Special items	–751	–931	–19.4
Operating result	19,275	9,675	+ 99.2
Operating return on sales (%)	7.7	4.3	
Earnings before tax	20,126	11,667	+ 72.5
Return on sales before tax (%)	8.0	5.2	
Earnings after tax	15,428	8,824	+ 74.8

