

# Skodas marketing turn around



**ASSIGN  
BUSTER**

How did Skoda manage this major turnaround in the public perception of the company? Analyse the changes that have taken place [55 marks]. In your analysis, you should use knowledge of management strategies and approaches that you have gained from the module or further study [40 marks]. Please make sure that you give clear and complete references to the sources of any of the concepts or information on the company that you include.

In the early 1990s Skoda was a struggling company, faced with a shortage of skilled labour, low productivity, high debts and low sales (North, 2009).

Skoda was producing out-dated and unreliable cars, causing its brand to be synonymous with unreliability. VW turned around its fortunes with changes in technology, management practice and marketing. Key to its product offering was the utilisation of VW's common platform approach, another cornerstone was the recognition that the brand required a complete overhaul. Skoda is now a successful part of the VW Company and for the large part has seen strong sales and profit. More recently, tough market conditions have made business difficult with most competitors suffering. Skoda however, has found itself in a stronger position than many; an astonishing achievement considering its poor market position only 20 years ago.

Skoda's roots are based in early 19th Century Czechoslovakia when Václav Laurin and Václav Klement began to produce their own bicycles. This progressed quickly to motorcycles and eventually automobiles in 1905. It was not until the 1920's when Laurin and Klement became partners with Skoda Works, the conglomerate arms manufacturer and the origin of the

enduring name. After the global depression in the early 1930's, Skoda successfully exported models such as the Popular until the break out of World War 2 and the German occupation. During this time the Nazi occupation directed industry efforts towards arms and munitions and hence production in this period sharply fell. Post World War 2, Czechoslovakia fell behind the iron curtain and became part of the centrally planned communist soviet government. Designs were overhauled and updated models were still being developed through until the 1960's. However, at this point western technological advancements overtook that of Skoda and the inherent inefficiency within the centrally planned economy began to take an effect. Towards the end of the communist regime Skoda were still producing models based on those from the 60's and subsequently became the basis of ridicule for poor reliability and quality (North, 2009). This is essentially the basis of the tarnished brand that had to be rebuilt in order to achieve its current position in the market. Skoda was producing cars that were poor compared to its competition and using technology that was hopelessly out of date (Edmondson, 2007). Ailing Skoda was bought by VW and began to turn Skoda around, largely by integrating it into its own highly successful business model the part and eventual complete sale by the Czechoslovakian government to VW represented an innovation in government foreign business policy (Lengyel & Cadil, 2009).

In order to compete in western markets in which capacity for cars exceeded demand resulting in a buyers' market. In order to survive from competition, it needed to assess its product offering and brand image in the pursuit of market perceived value. In order to address Skoda's issues VW re-aligned

Company objectives to produce a quality value car and a strong brand image.

In order to increase the efficiency and quality of the Skoda production, VW began to train employees in its management methods. Management across different businesses require consideration for organisational culture especially when working within an international setting (Naylor, 2004 pg120-121). The VW management had to deal with differences in business culture. Initially VW training did not improve the productivity of the Czech production plants, as the Czech engineers had adopted a very flexible improvisatory way of working. VW employed strict control on methods and made use lean production methods such as the just in time (JIT) management. Although it is generally more efficient and cost effective (Naylor, 2004, pg 510-511), JIT can involve short delays or pauses whilst waiting for the correct parts to arrive to maintain quality. This contrasted with the Skoda improvisatory style of working. VW took on more of a Human relations approach to its management, and by understanding and respecting Skoda's business culture it was able to break down inflexible aspects of the old Skoda culture whilst working with other parts such as their vast and varied experience in order to bring about successful change. The management adapted their management style from a very directive role to include aspects of behaviour in order to deal with the cultural differences and more effectively manage the new workforce (Naylor, 2004 pg 10-11).

The management also introduced novel methods to achieve Total Quality Management (TQM), this reduces the number of errors on the production by making everyone responsible for quality control as opposed to only checking

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for faults at the final stage of the production line and therefore increasing productivity (Naylor, 2004 pg 510-511). To achieve this VW introduced the ‘Red Button’ which halted the production line when a fault was spotted by a member of staff. This introduction encouraged personal responsibility for fault checking. The knowledge that anyone could halt the assembly line and highlight individual errors combined with the fact that more errors were spotted and corrected before reaching the end of the assembly line resulted in less errors reducing the number of defects.

After making changes to the management and workforce to deal with VW’s culture, VW began to work with Skoda on its new vehicles, based on the VW common platform approach. The common platform approach allowed many cars to share the structure. This allowed Skoda to immediately take advantage of the latest advancements of VW technology, massively reducing the cost required to produce a new model. The common platform approach allows for innovation at the visible customer-facing parts of the vehicle.

Creating a flexible management and employing VW’s methodology worked well for Skoda. The result was the creation of cars which were as if not more reliable than VW badged counterparts. The Octavia beat its VW counterpart the Golf in endurance tests (North, 2009). The result of combining VW management and technology with Skoda know-how had resulted in cars that were more reliable than VW was producing on its own.

Skoda now produces quality vehicles winning awards across Europe and the world (appendix 2.) including ‘Car of the Year’ in India 2009 (Skoda, 2009). This high quality production also resulted in high customer satisfaction

scoring Skoda highly in independent customer satisfaction surveys. In the 2007 European consumer satisfaction and quality studies, it ranked top ten in France and Germany and in Britain ranked 2nd (Edmondson, 2007). From internal customer research Skoda discovered that 98% of its customers would recommend Skoda to a friend (The Times Online). From the outset and throughout the introduction of the new VW based Skoda models, the branding of Skoda was overhauled.

From the outset It was clear initially that Skoda's brand was poor in most of Europe, Skoda was associated with cheap poor quality and unreliability and VW spend a large amount of money to Decontaminate the brand image adverts admitted flaws of the past ' 548 changes' and ' It's a Skoda honest' (North, 2009). In 2006 Skoda reviewed its market position and conducted a SWOT analysis. It was clear that the brand was still within a Niche Market an assessment of its brand suggested that although Skoda had been successful at disassociating itself with low-budget and low quality it still had a weak and neutral image compared with its competitors. (The Times Online) It was also clear that Skoda owners were happy about owning a Skoda and. Skoda decided once again to reposition its brand to gain market share in the mainstream car market. Skoda responded with a new marketing strategy, again leaving behind its successful brand defensive tactics. Its new market strategy was based around the happiness of its owners as shown in satisfaction surveys with the confident slogan " the manufacturer of happy drivers." Promotion centred on this emotional draw with adverts such as the ' Cake' during the advert the actual car is not shown at any point (The Times Online)

This flexible management, commitment to quality and brand recognition gave Skoda the over-haul it needed. Since VW's take 20 years ago, Skoda sales have quadrupled to 650, 000 cars and are responsible for 25% of VWs profits. Skoda product positioning was competing with other upmarket brands such as VW and Audi not only on price but also on quality (North, 2009).

Skoda's success followed the introduction of the Octavia and the Fabia, these were based on VW platforms this allowed the underlying chassis to be based on underlying modern, tried and tested technology. The Octavia beat its upmarket rival the Golf in endurance tests proving that management organisational and cultural changes at Skoda had allowed for the culmination of VW management and Skoda experience had produced a product even better than VW alone. In 2005 Skoda moved to diversify its brand by expanding its range into new and growth markets segments such as MPVs and SUVs allowing it to diversify and increase the size of its target market these also sold well.

Similarities with Skoda can be found in Rover. Rover founded in 1877 was nationalised in 1970 caused by labour strikes and financial difficulties. It was then privatised and passed around to various parent companies. Its issues with an out-dated and un-reliable product, with poor brand image and financial instabilities were never resolved and resulted in MG Rover declaring bankruptcy in 2004.

Skoda was a struggling company, turned around by VW. Key to its success were VW's management strategies combining directive and organisation

approach to management VW was able to aid Skoda in producing a competitive product and a strong brand image. Skoda is poised for future growth within both western and emerging markets (Edmondson, 2007).

## **Bibliography**

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## **Appendix 1.**

Laurin & Klement is the original brand name used by the founders of the bicycle company they started in 1895 which became Skoda, named after the company founders Václav Laurin and Václav Klement.

As at the end of 2009, Skoda Auto Group's worldwide workforce comprised 26, 153 employees including 1, 986 temporary employees and 1, 336 people employed by subsidiaries of Skoda Auto Group.



In 2009 Skoda Auto Groups injury rate was 1.6 injuries per one million hours worked.

In 2008 Skoda Auto Group achieved 200,182 million CZK from sales and 10,818 million CZK in profit after tax. In 2009 Skoda Auto Group achieved 187,858 million CZK from sales and 3,462 million CZK in profit after tax

Audi, Bentley, Bugatti, Lamborghini, Skoda, Seat and Scania are all part of the Volkswagen group.

Source: Skoda Annual Report, 2009