

Management of international business volkswagen marketing essay



Corporate Social Responsibility is vital to the company. Goals are set in a 135 page strong brochure called “ One Plus One Equals Three”. According to this leaflet Volkswagen AG is engaged in various activities like aid funds that support former forced workers, sustainability, supporting health and families. The company acts between the accommodative and proactive stance.

The Volkswagen Group faces different weaknesses, strengths, opportunities and threats which are revealed by implementing the SWOT analysis. Strengths include the large brand portfolio the company offers to its clients. Ranging from family cars like Volkswagen to Audi which has a sporty image or Bentley which is the luxury brand. Its biggest weakness is probably the low employee productivity when compared to its largest rivals. The production of the New Midsize Sedan in the US can be regarded as an opportunity and threat simultaneously. This car was developed to satisfy the specific needs of the US customers but it is not clear if it will be accepted by them.

Volkswagen AG's goal is to become the leading car manufacturer worldwide until the year 2018. Currently its biggest rivals are Toyota and General Motors. In order to fulfil this goal it aims to enter the US market with an own production plant in Chattanooga to have a better chance to promote the products to US people with a “ made in America” slogan. This market has always been the weakness of the company but it is vital to overtake its competitors. Volkswagen AG currently exports its cars to this market. The new plant is a Foreign Direct Investment. More precisely a Greenfield investment as the plant is build completely new. A theory which helps to find out if FDI is the right entry mode for a company into a market is the Eclectic <https://assignbuster.com/management-of-international-business-volkswagen-marketing-essay/>

Paradigm by John Dunning. Ownership advantage is expressed by e. g. strong brand identity. Location advantage is shown by closeness to US customer and lower wages than in Germany. Internalization advantages are also present because Volkswagen Group needs ultimate control over its products. Requirements are accomplished, market and industry analysis are satisfying but future will decide over success or failure.

During World War II Volkswagen AG, like many other companies in Germany engaged forced workers to produce armament for the war. In fact it employed the highest number of forced workers in Germany with a total of 11, 000. In 1988 first compensation payments were carried out by Volkswagen supporting many social projects in the home countries of former forced workers. Though at that time no claims could be made to Volkswagen legally. It was in 1998 when first forced labourers went to law in the US. A public discussion came up and Volkswagen Group decided to set up an aid fund to help the exploited workers individually. It was one of the first companies to do so (Kober, n. d.).

The aid fund is only a minor part of the company's Corporate Social Responsibility (CSR). As a multinational corporation it is involved in different parts of social and environmental activities. A 135 page strong brochure was established that describes how Volkswagen AG deals with CSR. Important points include families are supported with part time models for parents and single parents, health is promoted through SEAT's no smoking campaign and climate is protected by the SunFuel strategy which means that biomass fuel made of grains should be used (Volkswagen AG, 2006).

In 2005 Volkswagen AG suffered a major crisis which was about corruption, sham firms, travel costs and special payments. This affair was also criticised in the public and therefore had a negative effect on the company's image (Focus, 2008).

It is made clear that although Volkswagen AG has strong intentions regarding to the brochure it was not spared from corruption affairs. Following this it can be said that Volkswagen AG probably acts between the accommodative and proactive stance of CSR (Griffin and Pustay, page 157 f.).

3. Analyses about Volkswagen AG and the US automotive market

3.1 Porter's Five Forces analysis

This section will analyse the automotive industry of the countries Volkswagen AG operates in with particular focus on the US. This will be fulfilled by applying Porter's Five Forces (see appendix 1).

To enter the automotive market high investments have to be made in order to compete effectively with rivals. E. g. a factory has to be set up, Know-how has to be gained and a location has to be chosen with advantageous infrastructure. These facts make the investment very cost intensive. The new entrant will also lack brand awareness. It may already have a good reputation of the brand itself but not in terms of cars. Firstly it would have to prove itself and this could lead to high sunk costs. In summary the threat of new entrants to the automotive industry can be considered as relatively low.

The automotive industry is a slowly growing and in the last 2 years even receding market. In 2008 it suffered a decline of produced vehicles of 3.7 % worldwide and the US market even declined about 19.4 %. In 2009 the decline reached 12.8 % worldwide and 34.3 % in the US. In 2010 the market started to recover again. Due to only small growth in the industry it makes the rivalry even harder. Campaigns to gain a higher market share are normality. Further growth of the market can be expected due to the continued increase of global population. The 3 leading car manufacturers worldwide for the year 2009 were Toyota with a number of 7,234,439 produced vehicles, General Motors with 6,459,053 produced vehicles and Volkswagen with a number of 6,067,208 produced vehicles all including cars, light commercial vehicles, heavy commercial vehicles as well as heavy bus (International Organization of Motor Vehicle Manufacturers, 2007).

These and the following competitors can be considered as equally equipped concerning knowledge and plant offering comparable vehicles. This makes competition still tougher. Summarized it can be said that there is a very strong industry rivalry between existing competitors.

Today's level of technology does not offer a substitute with equal value to the vehicle. Cars will always be in need to the human. Appropriate substitutes include all means of transport, e. g. trains. Especially public transport must be mentioned. Because of increasing petrol prices and running out of natural resources people will rethink and could switch to public transport. Furthermore, the price level of the substitute goods cannot be considered moderate and therefore cannot present compensation to the

customer in this way. All in all the threat of substitutes can be regarded as minor.

There are no strong alliances from the buyer's perspective except car rental companies or certain business clients that can claim discounts. In addition no equally valued substitute exists hence customers are dependent on car manufacturers. Customers are also in need of a good quality product. In the last years customers seemed to be in a good position, though. Because of decreasing demand which resulted in an overcapacity of vehicles, car manufacturers started to offer huge discounts. Generally customers do not have switching costs when changing car brands which is a sign for existing buyer power.

On the one hand suppliers are under enormous pricing pressure. Commodity prices continue to rise. There is a lot of competition amongst themselves hence they cannot afford to lose clients. Due to that fact car manufacturers are in a position to set prices. On the other hand car manufacturers are dependent on their suppliers because they need good quality products for their clients. In summary supplier power cannot be regarded as strong because the market is lead by car manufacturers.

3. 2 PEST analysis

This section will state the development of the US in the areas of politics, economics, social and technology. Special focus will be on the economical part as this is the most important for Volkswagen AG.

The current political situation sees the US as a federal presidential

constitutional republic operating under a two-party system. The parties are <https://assignbuster.com/management-of-international-business-volkswagen-marketing-essay/>

the republicans and democrats that are currently in power. The political stability of the country is given no matter which party is in power. The US together with Canada and Mexico are part of NAFTA which was founded in 1994. The forming of this organisation resulted in a free trade zone on the North American continent. The US is part of several other free trade agreements including countries as Australia or Jordan (Central Intelligence Agency, 2011).

Economically the establishment of NAFTA was positive for the US. This is approved by the fact that GDP rose from 1994 to 2003 by 3.3%. Imports and export became cheaper which boosted trading amongst the members. In recent years growth of GDP suffered a slight decrease. Especially in 2009 it suffered a sharp decline due to the financial crisis. 2010 followed a recovery and it started to increase again (Trading Economics, 2010).

Additionally, the US is one of the top 3 most important importers and exporters of goods and services worldwide. In 2009 its merchandise value reached a level of over \$ 1,000 billion for both exports and imports. This makes the US one of the leading trading partners in the world (World Trade Organization, 2010).

A serious problem of the US economy is the high rate of unemployment. Since 2008 it increased dramatically reaching the peak in October 2009 with over 10% of unemployed people. This was also an effect of the financial crisis. In 2010 no recovery followed and as of November 2010 it is still pending at the level of 9.8% (U. S. Bureau of Labor Statistics, 2010).

The next section will deal with the current social situation in the US.

According to the United Nations in 2007 the US scored a Gini index of 40.8 %. This is relatively high compared to other industrialised nations. For example Germany and Sweden have a diversity of income of under 30 %. The gap between poor and rich is continuing to get bigger in the US (Vision of Humanity, 2011).

The population growth rate comes to 0.97 % in 2010 which is a good figure if compared to other industrialised nations. For the UK the growth rate is 0.56 % and in Germany it is even negative with - 0.06 % (Central Intelligence Agency, 2011).

The US is probably the leading country in terms of technology. Its Research and Development (R&D) spending add up to \$ 383.6 billion in 2009 and \$ 395.8 billion in 2010. This is nearly 3 % of its GDP and more than one third of total R&D spending worldwide. The expenses mostly come from the industry but also the state and universities have their share. (R&D Magazine, 2010).

3.3 SWOT analysis

This section will state Volkswagen AG's strengths, weaknesses, opportunities and threats it faces when trying to enter the US market (see appendix 2).

The biggest strength of the company is its strong brand portfolio. Examples include Audi with a sporty image, Bentley which is a luxury brand and Volkswagen which is "the family car". This makes it easier for customer to identify themselves with the brand because there are vehicles for different tastes.

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Volkswagen's R&D expenses are vital to the company to compete successfully in the market and to satisfy its client's needs. 25, 583 of its employees were involved in this sector which is almost 7 % of total staff. From 2005 to 2009 these expenditures increased about 33 % to € 5, 429 million (Volkswagen AG, 2010).

In comparison to Volkswagen AG's biggest rivals its employee productivity can be considered as relatively low which is a weakness to the company. In 2008 its revenues per employee added up at \$ 452, 656. 5. The competitors Ford and General Motors both had employee productivities of higher than \$ 600, 000. This fact proves that Volkswagen AG has to improve in terms of operation efficiency (Datamonitor, 2009).

Opportunities for Volkswagen AG include the population growth in the US of nearly 1 % as well as a recovering US economy. These facts are positive for an increase in sales.

A new car will be built in the Chattanooga plant which is the New Midsize Sedan. This vehicle is specially designed for the needs of American people and is expected to boost sales. It is similar to the VW Passat but will come with less interior hence it can be sold at a cheaper price to US customers. Volkswagen already applied the same strategy to the VW Jetta which is also less equipped in America than the European version and is only half the price. From 10th - 23rd January, 2011 the New Midsize Sedan will be first presented to the public on the North American Auto Show in Detroit (stern.de, 2011).

But the production of the new vehicle can also be regarded as a threat to the company as it is not certain that it will be accepted and bought by US customers. This could lead to unmet expectations and further lead to early losses in the US market which could make the new plant unprofitable. But also the intense competition could lead to that result because its largest rivals Toyota and General Motors both have market shares of approximately 15 % and 20 %. Volkswagen AG trails far behind (Dow Jones & Company, 2010).

4. Volkswagen AG's mode of entry to the US market

Volkswagen AG's goal is to become the leading car manufacturer worldwide until the year 2018 as already stated at the beginning. In order to reach its goal it has to overtake Toyota and General Motors that currently are the top 2 car manufacturers in terms of sales worldwide. One important point is a successful performance on the US market which has always been its weakness so far. This market is important because it still has one of the leading numbers car sales. Therefore the company aims to triple its share on the US market. Its largest rival Toyota has a market share of about 15 % and also General Motors as well as Ford are far ahead of Volkswagen AG which comes to 7.3 % in 2009 (manager magazin, 2010)

Volkswagen Group's first attempt to compete with an own production plant on the US market failed when it had to close its factory in Westmoreland in 1988 due to immense losses. At that time its aim was to gain a market share of 5 % which looked positive because the Beetle showed good sales figures so far. Hence opening the production plant in Westmoreland, Virginia in 1977 was to satisfy the demand of US customers. The factory had been bought <https://assignbuster.com/management-of-international-business-volkswagen-marketing-essay/>

from Chrysler one year earlier. This made Volkswagen AG the first foreign automobile company to produce cars in the US since World War II. But it never looked promising as already after 2 years Volkswagen AG's market share dropped to 1.9 % and only half of the factories capacities were in use (Holusha, 1987).

As of now Volkswagen AG only exports its vehicles to the US market which is a costly affair and also comes with exchange rate risks. The main supplier of these vehicles is the factory in Puebla, Mexico due to the free trade area and its location it is a relatively cheap option. But cars are also exported from different sites in Europe. Volkswagen AG's new focus will be on the new production plant in Chattanooga which is expected to start building cars in early 2011. In order to effectively supply the plant in the US, an engine producing factory is planned to open in Silao, Mexico 2013. This is important as it reduces the need of expensive imports from Europe. Together with Puebla it is planned to be its main suppliers (Lindner, 2010).

For Volkswagen AG the Chattanooga plant is a foreign direct investment (FDI) as was the Westmoreland plant. The difference between them is that the first attempt was a Brownfield investment when buying existing facilities from Chrysler. The new factory can be considered as a Greenfield investment which means that it was completely build new. This is an advantage for the company as the production site can be shaped exactly to its needs. The company may also be more independent in choosing a location. But high investment costs will occur which makes the operation more risky. In case of Volkswagen AG investment costs stood at approximately \$ 1 billion. Factors which favoured the location of Chattanooga were a good infrastructure with <https://assignbuster.com/management-of-international-business-volkswagen-marketing-essay/>

the main highways and railway in straight reach as well as grants from the city and land (Griffin and Pustay, page 380 ff.).

If the choice of FDI was the right one for Volkswagen AG lies in the future but at least theories can be implemented to reveal a tendency. According to the Eclectic Paradigm by John Dunning a company's FDI is justified when ownership, location and internalisation (OLI) advantages exist (Heledd Straker, 2006).

Ownership advantages include brand identity. Volkswagen AG is known worldwide and has a good image. It wants to raise vehicle sales in the US in order to become the world's largest car manufacturers hence closeness to the US market is vital. This makes a location advantage. In terms of internalisation advantages the ultimate control over the products is important and Know-how has to be kept safe hence no alliance should be established (see appendix 3).