

# Jetta life cycle challenge



**ASSIGN  
BUSTER**

After the initial introduction Jetta A1 went through several facelifts followed by A2, A3 and A4 models with upgraded configuration to match the changing demand of Mexico market (and other markets) based on the increasing economic development achieved in Mexico. In essence a single product was serving different markets all over the world in different segments throughout 1980 to 2005. During these periods, Jetta was produced both in Mexico and Germany with Mexico serving North American market and Germany serving the European and Asian Market.

However seems more and more production of Jetta was being done in Mexico, highlighted by fact that 80% of VWM production was exported. In Mexican market, each version of Jetta was discontinued after a new version was introduced. So in period from 1980 to 2005 various models of Jetta grew Jetta served as VW's answer to a along with its main target segment A. As Jetta growing market segment in was evolving, plant in Mexico was also taking more responsibility with taking design Mexico from 1980-2005 at the responsibilities with A3 model.

Continuing same time Puebla plant with tradition of growing Jetta with the market established itself to serve other Segment A, A4 was launched in 2000. However, sales in this segment were continuously markets across the globe declining from 32% to 26% of the overall market, indicating PLC stages of maturity and decline with respect to change in market segment demand. These numbers highlight the fact that Mexico was growing economically in same period and as the economy grows, the market demand increases for more sophisticated products.

Mexico during this period was experiencing rapid economic expansion and industrialization and fit as newly industrialized countries (NICs), along with Chile, Brazil, South Korea, Singapore, and Taiwan. (Exhibit 1 shows GDP of Mexico and A4 sales). However by 2005, Puebla plant has established itself as premiere production unit for VW for the North American and even Europe market. This was achieved by various trade agreement signed by Mexico during this period. (See exhibit 2).

These FTAs provided access to Latin America's emerging market as well as more developed markets like North America and Europe. It is interesting to note the order of signing of these agreements, starting from geographical proximity of Americas and then to Europe and Asia. Mexico was lucrative in terms of cost savings also. VW had plant in China which was cheapest but proximity to North American and Latin American Markets made Puebla plant of strategic importance for VW. Role that could be played by Jetta A5 in Mexico and Other Markets: Jetta A5 was to be launched in 2005.

The cost of this car was higher than A4 models due to technological advances but market research showed adverse buying intentions from A4 owners due to lack of acknowledging upgrades and not ready to pay higher price. To maintain margins for the company and collaborators higher price has to be tagged to A5. If Jetta keeps both A4 and A5 models and targets segment A with both products then there is a chance of cannibalization. The right approach in this case would be to continue production of A4 targeted towards segment A and start production of A5 and target segment B.

As indicated by various data in market research, in spite of a short run decline in segment B sales, the segment is bound to grow with Introduce new brand in Mexico Mexican economy growing. Also the data indicates based on A5 targeted at that substantial percentages of other car owners segment B and continue A4 for showed tendency to migrate to A5. This includes 23% migrating from A4 model also. So there will Segment A. be cannibalization of A4 to some extent however that is expected to happen in line with PLC stage in which A4 is at this time.

There is also evidence that majority of non A4 car owners valued the prototype at price compatible with Segment B. A4 model has reached maturity and decline stages in PLC for Mexico , however, it's still profit making model and if A5 is targeted for segment B, A4 can still milk the segment A. At this point VW should phase out nonprofit making variations of A4, go aggressive in pricing to beat competition and reduce advertising to retain the loyal customers in Mexican market. Latin American markets at this point are BEMs (big emerging markets) as suggested by data in Chapter 9 slides.