

# Marketing plan for volkswagen india



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The objective of this report is to prepare a marketing plan for Volkswagen India, the Indian subsidiary of one of the world's largest automobile manufacturer, Volkswagen AG, based in Wolfsburg, Federal Republic of Germany. Volkswagen arrived in the Indian market in 2001 by setting up its Indian subsidiary Volkswagen Group India. It launched its car brand Skoda that year and after six years, in 2007, two of its other brands Audi and Volkswagen, were also launched. Now Volkswagen India had two group companies, Volkswagen India Private Limited (VIPL) and Volkswagen Group Sales India Private Limited (VGS IPL). The VIPL focused on the manufacturing and sales of Volkswagen branded cars in India. Skoda Auto India and Audi India both are divisions of VGS IPL. Though Skoda and Audi created a market in India but Volkswagen took time in setting feet due to lack of advertising and promotions.

This report talks about how to improvise its current position and also about market penetration in the mass market.

The following areas are covered in this report:

External Marketing Audit

Internal Marketing Audit

SWOT Analysis

Marketing Objectives

Core Strategy

Marketing Mix Decisions

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Budgeting

Organization and Implementation

Control

## 2) Executive summary

This report is written to define a marketing plan for Volkswagen Group India (hereby referred to as “Volkswagen India”, we, our, Volkswagen). This report suggests how to improve its current position and penetrate lower segment car market in order to grow its sales figures and create brand recognition in Indian car market.

Volkswagen current position is analyzed and recommendations have been provided on the basis of various marketing theories and concepts. Complete marketing audit is done to analyze competitors, target markets, market environments and competitive advantages. Marketing mix effectiveness is analyzed and decisions regarding products, price, promotion and place are suggested in accordance to current market environments.

Strategies for gaining competitive advantage, market segmentation and product development are suggested with a marketing implementation and control model.

## 3) Business Mission and Vision

Volkswagen’s mission is “to offer attractive, safe, environmentally friendly vehicles which are competitive on increasingly tough markets and represent

the global benchmark in their respective classes. (Source: Volkswagen. co. in press release).

The Volkswagen India group visions:

“ Mobility – Made in India” which can be testified by the launch of hatchback car “ Polo” which is made in India at our Pune plant. (source: Volkswagen. co. in)

To raise Volkswagen’s market share to 10% by year 2011. (Source: Volkswagen. co. in, press release)

(Source: volkswagenag. com, annual reports)

We have to transfer the iconic greatness of Volkswagen in India as well. The car is not only the soul of German engineering, but also about the democratization of innovation.(Source: www. campaignindia. in, Volkswagen)

4) External Marketing Audit

## **4. 1) Macro Environment Factors:**

### **4. 1. 1) Economic Analysis**

Currently India is one of the fastest growing economies in world. This growth actually started after a series of reforms that were initiated in the early 1990s, for example allowing foreign investments in India, since then India has been enjoying a strong and accelerating growth. From 1995 to 2002 India’s gross domestic products (GDP) achieved a compounded annual growth rate of 5. 9 %, and went up to 7. 6 % between 2000 and 2007. This GDP is still growing at a pace of 6% to 8% per year. (Source: Government of

India, Ministry of Statistics and Program Implementation, [www.mospi.nic.in](http://www.mospi.nic.in))

This makes India a great market for us in long term, as with growing economy household spending is also growing and has approximately doubled over the past two decades.

## **Growth in Private Consumption in India**

(Source: McKinsey Report, [www.mckinsey.com/mgi/rp](http://www.mckinsey.com/mgi/rp))

The savings rate in India is also quite high compared to other countries. This focuses mainly on household savings which ultimately leads to more disposable income.

## **Gross National Savings rates**

(Source: McKinsey Report, [www.mckinsey.com/mgi/rp](http://www.mckinsey.com/mgi/rp))

### **4. 1. 2) Political Analysis**

After the economic liberalization, India emerged as a great auto market for foreign investors as government supported the industry in various ways like providing land subsidies etc. The weighted average import tariff was also decreased by over 60%, thus decreasing from 87% to just 20.4% substantially. The ongoing Auto import quota was also removed by the government in the year 2001 and allowed 100% foreign direct investment in the auto industry. (Source: Press Release, Ministry of Heavy Industries & Public Enterprises, Government of India)

Volkswagen entered the Indian market in 2001 only after the 100% direct investment was allowed in the country and launched Skoda, now with more <https://assignbuster.com/marketing-plan-for-volkswagen-india/>

subsidies on land and investments we have successfully established two plants for manufacturing our brands locally in order to attain an affordable price tag to target the potential middle class customer along with the niche market.

#### **4. 1. 3) Technological Analysis**

India has large pool of skilled auto labour which varies from engineers to mechanics due to its enormous auto industry. Training skilled Indian labour force is also quite an easy task comparatively due to their English awareness and high availability. The skilled IT industry of India is also an additional advantage to the Research and Development.

#### **Projected Employment in Indian Auto Industry**

(Source: Automotive mission plan, [www.dhi.nic.in](http://www.dhi.nic.in))

The Auto component Industry of India is also moving towards world class quality and production. There are around 600 companies that manufacture automotive parts and are moving towards excellence due to opportunities and threats, of globalization. Auto component manufactures embrace practicing modern practices like Six Sigma, Lean Manufacturing and TQM in order to achieve quality. Raw material and labour costs are also cheap in comparison to European regions. The low cost production of aluminum and steel is major factor for cheap raw material in India. (Source: Automotive Component Manufactures association of India, [acmainfo.com](http://acmainfo.com))

#### **Investment Growth in Auto Component Industry in India**

(Source: Automotive Component Manufactures association of India [www.acmainfo.com](http://www.acmainfo.com))

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Our Pune plant is one of the most modern plants in the Volkswagen Group. It consists of high level of vertical integration and a very large share of local suppliers. This plant is the only production facility in India which is operated by a German automaker and covers the complete production process, which includes press shop through body making shop and painting shop to final car assembly shop.(source: Volkswagenag. com)

#### **4. 1. 4) Ecological Analysis**

The first Indian emission regulations for vehicles came into existence in year 1991 and gradually tightened during 90s. Afterwards since year 2000 India started following European emission norms and the nomenclature was done as Bharat Stage I (Equivalent to Euro I) , Bharat Stage II (Equivalent to Euro II) and so on. Now India practices Bharat Stage IV (Equivalent to Euro IV) in major cities and Stage III in semi urban and rural areas. Also the vehicles that are manufactured in the country have to be manufactured in accordance with the relevant Indian Standards and Automotive Industry standards (AIS) set by the government.(Source: Centre for Science and Environment, journal, www. cseindia. org)

Volkswagen's both plants comply with all the standards set by Indian Government, and also Group's own " Environmental Principles and Production" norms are followed at the factories. All vehicles manufactured by Volkswagen are up to Euro IV (in India Bharat IV) standards.

#### **4. 2) Micro Environment Analysis**

## **4. 2. 1) Market Analysis**

India has emerged as one of the world's fastest growing passenger car markets in recent years and is continually moving on. The industry is producing about 1.3 million passenger vehicles, 0.4 million commercial vehicles, 7.6 million two wheelers and about 0.3 million tractors per annum. The government also is in support of this growth and has planned an “Automotive Mission Plan” (AMP) according to which government is forecast that Auto industry of India will contribute 10% of the total GDP of the country by the year 2016. The automobile industry has reached a turnover of United States dollar (US\$) 28 billion and the auto part industry has achieved a turnover of US\$ 10 billion annually. (Source: Final Report, AMP, www. dhi. nic. in)

## **Key Drivers of Indian Auto Industry Growth**

(Source: www. dhi. nic. in, Report on AMP)

Though the market is very vast but the competition is very high. Local players like Maruti Udyog Limited, Tata Motors and international giants like Hyundai dominate the market because of their first mover advantage (Jobber, 2010) and a competitive range of low cost passenger vehicles.

## **4. 2. 2) Market Segmentation**

The Indian car market can be segmented in five major segments:

### **Car Segment**

#### **Market share**

Price range, (INR = Indian Rupees), 1Million = 10 Lakhs



## **Description**

Budget Car Segment (A1)

44%

INR 1 Lakh to 3 Lakh

Entry level cars, High market volume

Compact Car Segment (A2)

27%

INR 3 Lakh to 5 Lakh

Most rapidly growing segment

Mid-Size Car Segment

18%

INR 5 Lakh to 10 Lakh

Fairly growing segment

Premium Car Segment

7%

INR 10 Lakh to 25 Lakh

Growth is fair but limited to major cities

Luxury Car Segment

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4%

INR 25 Lakh to 50 Lakh

Small segment with specific buyers

Super Luxury Car Segment

Less than 1%

INR 50 Lakh and above

Very small segment with limited Buyers

(Source: Society of Indian Automobile Manufactures, Self-created)

Currently Volkswagen India offers a car in every segment except budget car's segment but will soon enter this segment with our upcoming model "UP" which will be priced around INR 3 Lakh (Source: press release, Volkswagen India).

We need to follow Porter's " Generic Business Strategies" of Low Pricing, High volume and Low production cost (Competitive Strategy, Porter, 1980) in order to cope up with the competition in the fast moving Indian auto industry, and this is attainable through our " Mobility-Made in India" concept.

### **4. 2. 3) Distribution Analysis**

Volkswagen avails its products through distributors and dealers in the target markets. The dealerships are generally franchised or owned itself by Volkswagen India. This network is very important for Volkswagen as it supplies the product to the customers and as Kotler and Armstrong (2005)

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suggest that “ a company must maintain its profits and losses with the dealers for maintaining a close relationship”, it is very important to maintain healthy relationship as these dealers provide after sales services to the customers and in auto industry after sales services play a vital role in branding.

Volkswagen India’s all brands Skoda, Audi, and Volkswagen possess a separate distribution channels. Skoda has a strong hold in the Indian premium and luxury car market through its 61 dealerships which cover over 52 cities across India. Audi India has 15 dealerships across India in all the major cities and is aiming to have at least 18 dealers by 2011. Volkswagen has currently 42 dealers and the process is in expansion mode only. (Source: Dealer Network, [www.volkswagen.de](http://www.volkswagen.de)). The company had outlets in all the major cities but is now targeting semi-metro cities like Lucknow, Bhopal and Vijayawada in order to expand its market and availability.

However we will need to maintain a close relationship even after allocating franchises as because it is these dealers only who will provide after sales services, so their training and motivation is as important as their selection.

#### **4. 2. 4) Competitor Analysis**

Competition for Volkswagen India is very tough as we are a comparatively new company and due to our previous launches which contained mainly upper segment cars we were marked as too pricey brand.

The competitors of Volkswagen differ from segment to segment as each brand holds market in its specific products. Maruti Udyog and Tata Motors and Hyundai are the market dominators. Maruti being the most dominating

because its major product line is in the budget and compact cars segments which collectively holds 71% of the Indian auto market.

Tata and Hyundai are the next big names and their domination is also because of their compact and mid-sized product line which collectively holds 45% of the market share.

### Market Share of Indian Auto Companies

(Source: Thomaswhite. com)

Mahindra enjoys big chunk of the share due to very popular sports utility vehicle “ Scorpio” and General Motors, Toyota and Honda are doing well with their premium models. This targeting of a segment is the biggest strength of the well doing players but it can be their biggest weakness also as with lucrative features, designs and prices we can penetrate their key segments that is the lower segment and give them tough competition in entering upper segments where our hold is good comparing the total market share of the premium and luxury segment.

Current market share of Volkswagen has risen up to 2% and we are aiming for 8% to 10% in next four to six years (Source: Volkswagen India). Our biggest advantages our brand name and cutting edge technology which gives us an edge over Maruti, Tata and others players in the market.

With our new upcoming models like UP, we will cover every segment of the market and as we have started producing car locally also we will enjoy a huge cost cutting in our production.

Now we will analyze our position in regard to Porter's Five Forces Model.

## **Porter's Five Forces model**

As discussed above the industry rivalry in Indian auto industry is high due to large number of competitors and low switching costs. Volkswagen needs to come up with low priced and high variety of models to face competition.

Increasing fuel costs and “ Go Green” campaigns impose substitution threats so Volkswagen needs to come up with hybrid and electric cars in the market.

Due to lots of options the bargaining power of consumers is high and they are becoming more and more demanding which makes Volkswagen to be very careful about the after sales services. Suppliers can easily be switched as per the costs offerings and thus there bargaining power is low. New entrants can be moderately threatening as various options are already available and we are dealing with them accordingly.

### 5) Internal Marketing Analysis

## **5. 1) Operating Results:**

Operating results for Volkswagen Group, year 2009

All figures in Million Euros (€)

Particulars

Amount (€)

Sales

47, 864

Gross profit

410

Results from ordinary activities

1, 512

Net income of year

1, 082

(Source: Volkswagen Annual Report)

## **5. 2) Strategic Issues Analysis**

### **5. 2. 1) Current Marketing Objectives**

Our current marketing objective is to withstand the competition from local players like Maruti and Tata and early movers like Hyundai and Honda. This is very important in order to improve our current position and to penetrate other segments like budget cars segment.

We should move in for relationship marketing and follow the Six Markets Model (Christopher et al, 1991) in order to build relationship in the industry and achieve growth.

This model will help us in looking at all the aspects of the auto market and will help us in focusing on each and every domain in accordance to what is needed to be done in that domain in order to achieve competitive advantages over our competitors and also in developing brand value.

## **Six Market Model**

(Source: Christopher, Payne, Ballantyne (1991), Relationship Marketing, Oxford)

### **5. 2. 2) Core Competencies and Competitive Advantage**

Volkswagen's core competencies are cutting edge technologies, innovative designs and nine world renowned brands under its roof.

Competitive advantage are low in India at present because of late entry and not so good marketing approaches in the past. But as we have started understanding the market we will soon rise up to a respected level with the help of improved marketing techniques and wide range of products.

One major factor of Volkswagen's success can be the high end technology that we possess and other local players in Indian market lack. This is the reason that with received several prestigious awards like “ Car of the Year award” for model Polo, “ Premium car of the year award” for model Jetta, “ Performance car of the year award” for Audi A4 and Volkswagen India was honored ‘ Automotive Company of Year 2010’ at Auto India Golden Steering Wheel Awards. (Source: Volkswagenag. com)

### **5. 2. 3) Product Positioning**

Volkswagen India offers three brands in India that are Audi, Skoda and Volkswagen each brand is exclusive in its segment and is considered as a respected option. Earlier due to products ranged only in premium and luxury segments the sales figures were not so high but as we have entered with more product line in the mid-size segment and compact car segment the figures are growing at rapid pace.

First entry in the mid-size was Skoda Fabia which is a very well going model and now the recently launched Volkswagen Polo is a big success. (Source: Press release, Volkswagen India). One excellent opportunity for Volkswagen is that Indian customers are not very brand loyal and can shift brands if they find better deal in the same or nearly same budget. Volkswagen with its attractive designs and high end technology is emerging as a successful option. Some products are as follows:

- 1) Volkswagen Polo, “ German Engineering, Made in India”
- 2) Volkswagen Beetle, “ Curves are back”
- 3) Audi R8, “ Born of ideas”
- 4) Skoda Superb, “ Epitome of Opulence”

### **5. 3) Marketing Mix Effectiveness**

#### **Product**

Volkswagen India is marketing three different brands that are Audi, Skoda and Volkswagen that offer 16 different models with various variants according to needs of customer.

Volkswagen invested approximately Euros (€) 580 million to build the Pune car plant in order to achieve low cost production and increase volume.

As Indian market is mostly dominated by the budget and compact car segment so we came up with models like Skoda Fabia and Volkswagen Polo to meet the demand. This decision worked successfully and so we are also moving in budget cars segment through our upcoming model “ UP”.



Volkswagen also provides the Volkswagen Warranty to all its customers in order to keep them satisfied with “ after sales services” this helps in building loyalty and good word of mouth for our company.

## **Price**

Earlier Volkswagen India mainly catered the luxury and premium segments of the Indian car market. This lead into a brand image of a “ very expensive brands” and therefore sales were limited, but later on with Fabia, Polo and other upcoming low priced models, sales are booming. The expensive brand image is also somewhat helpful in this as with its premium and luxury models Volkswagen’s all brands represent a certain “ class” and so now with moderately priced products we can cash this image.

Volkswagen’s one major advantage is their financial service which operates solely in India for providing car loans to all Volkswagen brand buyers at 4%to 5% where as other brands offer loans at no less than 9%.

## **Place**

Volkswagen enjoys a good distributor network all over India and is further growing it. Volkswagens all three brands in India can be sold at each other’s dealership, this provides more robustness to the network and also more choices to the customer.

## **Promotion**

Earlier Volkswagen India used print media only to promote its brands but now Volkswagen has launched an integrated 360 degree communication campaign combining the print, electronic, digital, and out of home media.

First major step in promotion was the “ Times of India” roadblock in which all our brands were promoted across all 16 edition and nine pages of Times of India newspaper.

Volkswagen launched “ pre monsoon campaign” to promote itself by offering free service to all Volkswagen brands owners.

We have also been organizing and sponsoring various sports events like “ Audi Quattro Cup” is a golf tournament being held for past three consecutive years. A racing tournament “ Polo Cup” is also launched to create brand recognition and awareness.

(Source: Press releases, Volkswagen India, various sources) Self-Created

## 6) SWOT Analysis

A SWOT Analysis of Volkswagen India is as follows

### **Strengths**

High end technology.

Prestigious brand names.

Local production units.

Sound financial background.

### **Weakness**

No model for the budget segment yet.

Late mover disadvantage.

Not very widely grown distributor's network.

High waiting period for the new models.

## **Opportunities**

Booming Indian economy and capable middle class.

Indians developing taste for international brands.

Indian Government supporting Auto Industry in growth.

New upcoming models for the demanding budget cars segment.

Increasing production capacity of mid-size cars.

## **Threats**

No entry barriers for new comers and thus growing competition.

Tata's model Nano is too less priced to be competed.

Used car markets are being promoted by local players.

Increasing fuel prices.

7) Marketing Objectives

### **7. 1) Strategic Thrust**

With the help of Ansoff's Matrix we will consider ways to expand our business and look in into course of actions that should be taken about current performances (Ansoff, H. I. (1957).

## **The Ansoff's Matrix**

Volkswagen should consider the following ways for improvising its position:

### Product development

Product development is necessary course of action in order to improve its current position as Volkswagen has a wide range in premium and above segments but has limited range of products for the budget, compact and mid-size segment and these segments hold major share of the Indian car market.

### Market Penetration

Market penetration is the other strategy as Volkswagen is launching more products for the low cost segments and we need proper promotions and ad campaigns for penetrating the market as very tough competition is posed by local companies and early movers.

## **7. 2) Strategic Objectives**

According to the GE Matrix model for market strategy Volkswagen should consider “ invest for growth” model.

## **The GE Matrix for Market Attractiveness and Competitive Strength**

Volkswagen needs product development to sustain competition with the established companies of the auto industry. As Volkswagen offers just two models in the three major segments (lower segments) of the industry it is advised to bring in more models to compete with others who offer a vast variety for the lower segments.

The other aspect of the model is to go for large volume manufacturing for the upcoming models as Indian auto market is very demanding for popular products and the competition is cut throat in smaller segments. We have experienced it with the model Polo where many bookings were cancelled due to lengthy waiting periods. (Source: [www. autonewsupdates. com/volkswagen-polo](http://www.autonewsupdates.com/volkswagen-polo))

## 8) Core Strategy

Volkswagen India should move on with the “ Three Generic Competitive Strategies” model (Porter M., 1980) to target markets, setting competitor targets and creating a competitive advantage in the Indian auto market.

### **Porter’s Generic Strategy Model**

Focus strategy gives priority to market segmentation. Volkswagen India should focus accordingly to its Brand labels and Indian market. For Luxury and super Luxury segment Volkswagen should focus on Audi which currently in doing good in these segments. For premium segment we have Skoda which also offers one model in mid-size segment and Volkswagen should focus on mainly the lower three segments where it is gaining popularity too. This way we will be able to cover all the market and as each brand of Volkswagen is unique, we can give tough competition to every segment’s key players.

Overall cost leadership will help in driving the competition away by offering low cost products. Though it can lead to price wars in the industry but with our local production unit it can be dealt. This strategy is important for Indian auto market as it is a very price driven market and using this strategy we will

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be able to overcome international players like Honda and Toyota who don't have any product in modest pricing. For targeting lower segment leaders Maruti and Tata also this strategy is necessary as their main strength is low pricing and vast availability.

Differentiation also provides us competitive advantage as our greatest strength is technological excellence and innovation, through which we can provide excellent options to the customers. The young earning generation of India is quite brand savvy and has a taste for international brands with our unique models we can attract them more than the traditional designs and brands.

## 9) Marketing Mix Decisions

### Products

Volkswagen India used to target niche segment only when it entered the market but now after understanding the market of India we have started focusing on lower segment cars also. But by launching only two models in this segment won't help as other competitors like Maruti and Tata have several models. Product volume should also be increased as lengthy waiting periods will make us lose customers.

We need to boost our product development and production process in order to sustain in India.

Our niche segment cars are doing well enough but technological advancements like hybrid technology should also be placed in the market to compete with premium segment players like Toyota and Honda who have

already launched their hybrid versions. We should also keep on developing models with better fuel efficiency as fuel price hike is a major issue in India and pushes customers to go for substitutes like two wheelers and public transports.

After sales services should be enhanced like providing longer term of warranty and better car servicing facilities as it helps in building customer loyalty.

### Price

Volkswagen India is breaking its “ pricey” image and is emerging as a value for money brand in all segments. We have slashed our production prices by manufacturing cars for Indian market locally but we should increase the volume also for the popular models in order to further slash price and remain profitable.

We have our own financing services which provides car loan to our customer at attractive rates but we can further attract customers by providing them festive discounts as sales are very high during festivals in India.

We can also provide bonuses like referral and loyalty bonus to ensure repeat customers.

### Place

Volkswagen is expanding its distributor channel at very fast pace and this is very important in a country like India which is geographically very large.

Currently we are targeting only metro and major cities but we need to expand our channel in moderately developed cities too, as we are launching products for budget, compact and mid-size segments and these cities can increase our sales numbers effectively.

We should also advise our dealership for expanding their service station so that customers doesn't have to wait for days to get their car serviced.

### Promotion

Volkswagen has started promoting its brands and model via an integrated 360 degree approach which comprises of print, electronic, digital and out of home medias.

But we need to be more rigorous on promotions as various other car promotions are going on all the year round on all types of medias.

We can also sign contracts with celebrities to endorse our products as celebrity endorsing works well in India.

More promotion events should be organized at shopping malls with some light contests for the audiences in order to bring enthusiasm for the brand.

We should also market our financial services for car loans along with the product as our attractive financing offers are not so well known and can be a great tool in attracting young customers who generally look for financing cars.

We have been organizing and sponsoring a golf tournament for past three years and a racing tournament this year for promotion, but as golf and

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racing are niche segment sports therefore the promotion finds limited audiences.

We should also sponsor and/or organize tournaments for cricket, hockey etc. which have very wide viewing audience and are popular in all classes' audience.

(Source: Various Readings, Self-Created)

## 10) Budgeting

Volkswagen should practice a mix of the following budgeting methods:

### Objective and Task method

Using this method we will be able to correlate advertising expenditures to overall marketing objectives which is important to ensure that spending is focused on business goals.

### Competitive Parity method

This will help us to compare our spending with competitors so that we can outperform them in promotion and advertising practices.

Anyhow it should not exceed 30% of the total revenue.

## **Particulars**

### **Budget Percentage (%)**

Advertising

35%

Publicity

20%

Sales promotion

20%

Website development

5%

Product

10%

Place

10%

(Source: Self-created)

## 11) Organization, Implementation and Control

The whole environment analysis shows that there is lots of competition in the Indian auto market. Apart from extending our product line for every segment and providing better after sales support we need to focus on marketing and promoting our Brand(S).

For this we need role and accountability model which provides specific tasks to specific people. Marketing department should work side by side with the sales department in order to improve their plans and objectives.

(Source: Self-Created)

The above model is an example of how we can distribute responsibilities and whom are we answerable to, about our performance.

Measures of control can be sales performances, marketing expenditures and customer satisfaction reviews and surveys. Analyzing these improvements in the plan can be made.