

An overview of volkswagen group automobile industry marketing essay



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The main aim from this project is to analyze manufacturing company in term of ratios analysis and common size analysis. We took Volkswagen Group as a manufacturing company and we try to know what are the line business, major competitors, and the goals of Volkswagen Group. Then we start to make common size analysis (vertical and horizontal analysis) for both income statement and balance sheet from year 2005 to 2009 to see the financial performance of the company over the time. Moreover we make ratios analysis to check the liquidity, solvency, profitability, efficiency, and cash flow of the Volkswagen Group. Finally, the report is going to discuss the data that we found on common size analysis and ratios analysis. Also the report will include all the annual report from 2005 to 2009.

Company profile

a) What is the company's principal line of business and major competitors?

Volkswagen Group majorly known as the VW group is a German originated automobile manufacturing group that is ranked third largest in world as a motor vehicle manufacturer. The core business of the group includes developing vehicles and components for all marques and manufacturing complete vehicles for the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles marques. The group has world-wide working of operations but its primary focus is Europe market.

Major competitors of Volkswagen are Toyota, General Motors, Ford and Hyundai.

b) On what day does the company's fiscal year end?

The company Fiscal year ends on Dec, 31st

c) What is the largest source of cash from financing activities?

For the year ended Dec 31, 2009 it's " Proceeds from issue of Bonds"

d) What is the largest use of cash from investing activities?

For the year ended Dec 31, 2009 it's " Disposal of Equity Investments"

e) What is the average income tax rate for the fiscal year reported?

Income tax rate for 2005 is : 35. 2%, 2006: 9. 1%, 2007: 37. 0 %, 2008: 29. 1%, 2009: 27. 7%. The average tax rate is 27. 62%.

f) What is the average issue (sale) price per share of common stock issued as of the end of the fiscal year reported?

The average issue (sale) price per share € 149. 42

Company goals and achievements

Descriptive information, Compare goals provided in annual reports with achievements in the following periods, seek for any possible predetermined standards and find out whether the company achieved them in the following periods.

There are numerous objectives and goals set by the Management of Volkswagen with the motive of enabling the company to expand the scope of its business and generate sustainable success by focusing on its customers

and environment. As part of business operations management, the Board has focused on introducing measures to improve cost structures through process optimization overall and modular strategy implementation. The implementation of these goals can be seen through the financial performance of Volkswagen where in terms of sales, the related costs are kept in controlled and balanced trend with no irregular hikes.

Volkswagen goal of servicing its customers with most innovative and fascinating vehicles is met with its ability to generate increased world-wide sales and improved cost position. In 2007, the company earned a sales record of 6.2 million vehicles.

As part of Volkswagen's global business strategy, the goal of the company had been to implement its multi brand strategy and introduce most environments friendly and broadest vehicle range. Towards implementing these goals, the company in year 2009 has been able to cope with the weak industry trends due to financial and economic crisis overall. It's implementation of integration and partnerships with Porsche and Suzuki have unlocked many growth prospects. It is the result of such policies of management that Volkswagen group did not suffer from the financial crisis to the extent most of the competitors did.

The focus of maintaining quality standards is also evident from the analysis of financial statements where each year better quality improving standards and procedure are implemented as part of production processes to enable Volkswagen in delivering its customers best equipped quality vehicles.

Future goals of company include exploring more developments in fuel

efficiency for vehicles and climate friendly fuels as key components of automobility along with driver assistance systems to promote fuel efficient driving.

Common Size Analysis

Ratios analysis

Data Analysis

Having done with a thorough financial statement analysis of Volkswagen Group for year 2005-2009, it is seen that the company as a key component of Automobile Industry has been able to maintain its financial performance with slight disturbance in profits for fiscal year 2009 as a result of global depression in markets.

Firstly having a look at the vertical common size analysis of Volkswagen Income statement and Balance sheet revealed that most items of Income statement and Balance sheet do not present any major fluctuations over five years. Year 2007 and 2008 were better performing business years where due to decreased CGS as a percentage of Sales, overall profitability was improved i. e. Operating profit and EBT improved from 2% in 2006 to 6% in 2007 and 2008. However, due to an overall market recession profitability has significantly decreased due to burden on costs and expenses i. e. PAT decreased from 4% in 2008 to 1% in 2009. The vertical common size balance sheet showed the group structure consists of Debt: Equity of 80: 20. Other significant values are fixed assets, cash, inventory and financial service receivables.

The horizontal common size analysis of Income statement and balance sheet taking 2005 as base year showed a healthy growth trend for years 2006-2008, whereas for year 2009, it exposed a decreased trend of profitability significantly in operating profit, Profit before tax and Profit after tax. The balance sheet shows increasing and decreasing fluctuations when looked at individual items but overall can be considered relatively stable and improving.

The Ratio analysis of financial statements is done to evaluate the performance of company in a given year using relations between different balance sheet, income statement and cash flow items. Volkswagen analysis of different financial ratios over the period of 5 years enabled us in seeing the performance of Group under five heads: Assets efficiency, liquidity, cash flow, profitability and solvency.

Assets efficiency:

These ratios are used to check the efficiency of a company i. e. how efficiently assets of company are used in generating revenue. The fixed asset turnover and total asset turnover ratios are lower in magnitude over the time period under analysis. Generally the greater the magnitudes of these ratios the efficient are the assets of a company are considered in generating sales revenue. Volkswagen group assets turnover ratios for last five years vary within range of 0.5 and 1.2 which is not quite impressive. The inventory turnover ratio over the last five years shows a mixed trend whereas the receivable and payable turnover are also a concern as payable

turnover should be greater in magnitude than receivable whereas it's the opposite case here.

Profitability:

The profit margins for past five shows an increasing trend till 2008, however for year 2009 profitability is effected due to decreased sales and pressures on costs. The trends for Return on assets and equity, are also the same, whereas the magnitude of these is moderate. The earnings per share for the group is attractive enough just declines much for year 2009 i. e. from €4. 6 in 2008 to €0. 9 in 2009.

Liquidity:

These are the ratios derived from balance sheet and measure ability of company to generate liquid funds to pay its debts. The current and quick ratios for Volkswagen fall within the range of 0. 9 and 1. 2 for past five years which is considered well enough for liquidity purposes. The cash conversion cycle is the number of days cash is tied up in production and sales process. Our analysis shows a mixed trend which is observed to decrease in 2009 which is a good indicator. The receivable collection and payable deferral periods are also in favor of company's liquidity requirements.

Cash flow:

The cash flow ratio of less is one is indicative of greater chances for bankruptcy. Volkswagen cash flow ratio over past five years is consistently low and need attention.

Debt /Solvency:

These show the overall debt load of company. The debt as compared to assets does not portrays greater risks, however greater dependence if debt as compared to equity increases leverage and so the risk scope for the Volkswagen.

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