

Marketing strategies for volkswagen, germany



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Introduction

Volkswagen headquartered in Wolfsburg, Germany is an automobile company involved in manufacturing and distribution of automobiles, commercial vehicles and engines all over the world. It has 61 production plants in 21 countries. It sold 7, 357, 505 units in 153 countries in year 2010. Volkswagen Group India, the Indian subsidiary is a part of Volkswagen AG. Volkswagen Group in India headquarters in Pune, Maharashtra. The Volkswagen Group is represented by three brands in India: Volkswagen, Audi and Skoda. The group began with the entry of the Skoda brand in 2001, Audi brand and Volkswagen brand in 2007.

Company description

Organizations Mission Statement

At Volkswagen high qualified professionals are dedicated in providing quality services to the customers. They also collaborate environment i. e. provide a quality product, create safe environment, enhance productivity and enable customers to become successful. They are committed to provide such opportunities for investors where they can find profit and grow.

Critical analysis: Volkswagen's aim is to gain maximum market share in automobile by providing best quality to its customers and ensuring that every stakeholder who is attached to the company in any manner is happy and satisfied.

Volkswagen's Objectives and its subsidiaries

These are some objectives of Volkswagen:

Commercial success in terms of profit, market share and market growth.

To protect environment from every aspect by reducing industrial waste, plantation and conserving the natural resources.

Become socially responsible by avoiding socially harmful acts.

Increase value of its shares to give maximum returns to the shareholders

Following are the subsidiaries of Volkswagen group in India and their functions

Volkswagen India Private Limited- It assembles, manufactures and distributes Volkswagen vehicles in India. It was established in 2007

Audi India- Audi India was established in March 2007 as a division of Volkswagen Group Sales India which sells luxury segment vehicles like Audi.

Objectives in relation to Organization Structure

Each brand in the Volkswagen Group is managed by a senior brand manager.

The group targets and requirements are laid down by the Board of Management of Volkswagen AG which must be achieved in a legal way.

Important matters of the group are also decided by the Board of Management. The companies of the Volkswagen Group are managed separately by their respective managements i. e. Volkswagen China and Volkswagen Group India practice their own management. Dr John Chacko is the Chief Representative India, President and Managing Director of Volkswagen Group India.

Critical Analysis: Volkswagen has a very well defined systematic organization structure based on the basis of geographical regions, office of responsibility and on the basis of product division they manage like Polo, Vento, Jetta, Passat and many more. The top level management includes President and board of directors who decide what markets they need to target and how shall they approach them, in relation to their competitors. Each individual of each department has the authority to enforce his strategy so that they can achieve their targeted sales and grow their market share.

Market share and product portfolio

Volkswagen is currently a minor player in India's growing automobile market. Europe's largest car maker currently has less than 3 per cent of the Indian automobile market. The company intends to achieve compounded annual growth rate (CAGR) of 15 percent in net within five years. The market share of the company is increasing with nothing few years back. The company sold 53, 341 vehicles in 2010, compared with 19, 001 in 2009.

Source: <http://www.thomaswhite.com/explore-the-world/BRIC-spotlight/2010/india-auto.aspx>

Maruti

48. 74%

Hyundai Motors India

18. 1%

Tata Motors India

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12. 92%

General Motors India

4. 4%

Honda Siel cars India

2. 97%

Ford

4. 81%

Volkswagen

2. 5%

Source: <http://www.thehindu.com/business/Industry/article1684767.ece>

The company offered three brands including Audi, Skoda and Volkswagen that together comprised of 14 different models as of late 2010.

Following are the brands that Volkswagen owns

Brand Portfolio- Product Categories

Volkswagen:

Source: <http://www.volkswagen.co.in/en.html>

Volkswagen Polo, Volkswagen Vento, Volkswagen Jetta and Volkswagen Passat are the models that have been manufactured and assembled locally

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in India. Whereas, Volkswagen Beetle, Volkswagen Phaeton and Volkswagen Touareg are imported.

Audi:

Source: <http://www.audi.co.in/sea/brand/in.html>

Audi A4 and Audi A6 are manufactured and assembled locally. Whereas, Audi A8, Audi TT, Audi R8, Audi Q5 and Audi Q7 are imported.

Revenue by segment

http://www.volkswagenag.com/vwag/vwcorp/info_center/en/news/2011/01/Volkswagen_Group_India_achieves_impressive_sales_growth_of_180_7_per_cent_in_2010.html

Business environment analysis

PESTEL Analysis

Macro factors from external environment have been illustrated by the use of PEST Analysis (GLOBAL PERSPECTIVE)

POLITICAL FACTORS

SIAM has recommended the government on extending exercise and sales tax benefits to customers who opt for scrap age of their old vehicles.

Effective implementation and uniform enforcement of Goods and Service Tax.

Customs duty of imported cars including hybrid cars.

Poor infrastructure development. (Highways construction 16 km per day instead of 32 km per day)

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Indian government auto policy aimed at promoting growth of the Indian automobile industry.

ECONOMIC FACTORS

Raw material cost increasing by 50% due to high interest rates, rising levels of inflation, lack of easy finance and global price rise.

Rising number of financial institutions.

Ford Motors India plans a fresh investment of Rs. 2100 crore.

Middle class expanding 30-40 million every year.

Growing working population (441 million people in 2015/2016)

Non-availability of raw materials like steel at cheaper rate.

Weighted tax deduction of up to 150% for in-house research and R & D activities.

The Indian economy has grown at 8.5% per annum.

SOCIAL FACTORS

Rapid urbanization of semi-urban areas.

Rising inspirational levels. Improvements in living standards of middle class people.

Increased spending on Fashion and lifestyle comforts.

Seeking “ Value for money”

The average family size is 4, which makes it favorable to buy a four wheeler.

85% of cars are financed in India.

Indian customers are highly discerning, educated and well informed. They are price sensitive and put a lot of emphasis on value for money.

Preference for small and compact cars. They are socially acceptable even amongst the well off.

Preference for fuel efficient cars with low running costs.

TECHNOLOGICAL FACTORS

Great emphasis on R&D

Accelerating the pace of change

Innovation

Increased regulation of technological change.

ENVIRONMENTAL FACTORS

Shortage of raw materials

Increased energy cost

Rise in price of oil

Introduction of CNG and electricity running vehicles

LEGAL FACTORS

Pre Liberalization Period

Government protection by use of licence

Heavy exercise duty on cars

Price discrimination by the government

High import duty

Liberal policy in foreign participation

Post Liberalization Period

The license raj ceased to exist

Continuous rationalization of the excise duty regime

Reduction in the import duties

Foreign direct investment

Implications of PESTEL Analysis

Political: The company is affected by the high tax and duty charged by the government which has resulted in lower demand for luxury cars like Audi A8, Audi TT, Audi R8, Audi Q5 and Audi Q7. The higher rate of duty on such vehicles is increasing the cost to the customers. The development of highways in India is steady which means that the cars being manufactured do not have enough places to get driven.

Economical: The cost of production is increasing due to rising level of inflation which has resulted in expensive vehicles. The cost of steel is high because there is an excess demand for steel in the country. But, the sales of

cars are growing due to rising number of financial institutions who provide loans and help them to purchase in installments. It has also forced manufactures to lower the cost of production and achieve economies scale due to increasing costs and competition in the market.

Social: The rapid urbanization process, improvements in the living standards of the people and increasing working population can boost the sale of Volkswagen in future. People seek a good value for their money and prefer small and compact cars in India where Volkswagen can take advantage among rivals.

Technological: It is emphasizing of fuel efficiency, emission reduction and quietness through a huge investment on R&D. It also making use of safety technology such wheel lock up, additional breaking forces, air bag and vehicle stability control. It is a company known for innovation.

Environmental: The shortage of raw materials is making the production process difficult and affecting its smooth operation besides that the cost of energy and oil is also rising. Introduction of CNG and electricity running vehicles has become an alternate option for vehicle users.

Legal: Reduction in the import duties and allowance of foreign direct investment has made it possible for customers to afford luxurious imported vehicles at lower cost.

2. 2. Structure of market

It is one of the largest in the world and one of the fastest growing globally.

An annual production of more than 3.7 million units in 2010, seventh largest in the world.

Domestic automobile industry has been showing a sparkling growth caused by increasing customer base and affordable loans.

The auto parts industry is also scaling up, as global car manufacturers are increasing their component sourcing from India, due to cost and engineering competencies.

Competition is intense as most global firms have entered the market.

Passenger vehicle sales grew 29% in the year 2010.

Industry structural factors

Porter's five force model has been used to determine the industry structural factors.

Source: <http://sharmaaman.posterous.com/?tag=strategy>

Strategies adopted by Volkswagen to these forces

Threat of new entrants: The capital and expertise need to set up a manufacturing plant is very high and it would be a barrier to the new entrants. However, India's growth forecast, infrastructure development and the financial options to the people, the market is attractive which is likely to bring in new entrants in the market. New entrants are entering the market day by day.

Threat of substitution: India is famous for its two-wheelers (bikes and mopeds) and three-wheelers. They are the substitution of the four-wheeler vehicles. These are threats to auto manufacturers in India.

Rivalry: Maruti, Hyundai Motors India, Tata Motors India, General Motors India and Ford are the major competitors of Volkswagen. It is competing with them to increase its market share by providing competitive cars in the market.

Buyer's power: Buyers in India have a wide variety of choice. There are many manufacturers selling in India. There are also cheap choices like the famous Tata Nano. Customers have a large variety of choices. VW has a good brand reputation which differentiates it from other manufacturer. Customers looking for quality, customer service, durability and performance choose VW.

Supplier's power: It is likely that the suppliers to the manufacturers have considerable bargaining power. It can also outsource supplies if the cost is increasing. They are not held ransom by one single manufacturer as they can market their products to any of the others in India.

Internal analysis

Core competency

Distribution and marketing:

Marketing Strategy: Volkswagen's strength lies in the mass market. Its name, after all, means people's car in German. When VW started out in 2007, low brand awareness was one of the key concerns. Thus Volkswagen came out with 13 advertisements in a leading English newspaper. It told

readers all they ever wanted to know about Volkswagen how the name came about, its product line and so on. Aggressive price tags and high-decibel advertisements are being by Volkswagen to market its products.

By the time the campaign ended, Volkswagen had used 18, 000 television spots, 144 insertions in broadsheet dailies, 50 insertions in magazines, 280 out-of-home sites and 23 digital portals. To improve brand recall, the next campaign showed all Volkswagen cars: The Beetle, Passat, Jetta and Touareg.

VW's Ad agency DDB Mudra claims that the brand recall is now in double digits. Volkswagen is a much awaited brand. It is truly the people's car. Volkswagen cars are positioned as products of German engineering in the mind of the Indian consumer. " Germany produces the best-engineered products in the world."

Figure: Brand positioning by Volkswagen

Distribution: The Company has developed 163 dealerships across India. The company is planning to expand it to 200 by 2012. Volkswagen India does not only gives importance to the dealership and the sales figure, but also provides after sales services for the customers satisfaction to build goodwill among the customers.

Financial Analysis

Return on Assets 2. 54%

Return on Capital 4. 69%

Return on Equity 16. 78%

Gross Margin 16. 38%

EBITDA Margin 10. 01%

Total Assets Turnover 0. 7 times

Fixed Assets Turnover 3. 8 times

Inventory Turnover 5. 9 times

Current Ratio 1. 1 times

Quick Ratio 0. 9 times

Total Debt 119. 2 times

Total revenue growth 20. 62%

Gross Profit 63. 53%

Source: <http://investing.businessweek.com/businessweek/research/stocks/financials/ratios.asp?ticker=VOW:GR>

Strengths and weaknesses

Strengths:

Weakness:

Strong brand portfolio

Strong focus on research and development

Better fuel efficiency

Superior built quality

Expensive spare parts

Relatively low employee productivity

Few distribution channels

Opportunities and threats

Opportunities:

Threats:

Accelerating global demand for buses

Increasing demand for hybrid electric cars

New companies

Weakening of global automotive industry

Environment protection regulation

Critical Analysis: By analyzing the SWOT, Volkswagen needs to understand that to exist in the Indian market it should develop spare parts that can be afforded easily by customers. Development of reasonable spare parts will increase its market share. There are 163 dealers selling its products. The product is not accessible all over India. VW needs to increase its dealerships too.

Positioning and stakeholders analysis

Stakeholders

Following are the stakeholders of Volkswagen

Consumers

Communities

Employees

Investors

Suppliers

For briefing on stakeholders please refer appendix 3

Consumers: Volkswagen commits in providing best products to its customers in terms of security, safety and durability. Volkswagen India is continuously involved in adding new models to its product portfolio. It also provides after sales services for the customers satisfaction to build goodwill among the customers.

Key success factors of Volkswagen

Looking Eastward: Volkswagen understood well that eastern countries like China and India has a huge market. Per capita income in India hovers around \$4, 000 per year. India has a large and growing middle class, members of which command salaries between five and ten times the national average. Moreover, these individuals work in healthy industries and benefit from pay raises that can exceed 20% per year. The government of India estimates

that some 300 million people make up this emerging middle class. Thus, looking eastern countries is one of the factors behind VW's success today.

Designing for India: The goal of the company was to offer attractive, safe and environmentally sound vehicles which were competitive on an increasingly tough market and would set world standards in their respective classes. The company built a product strategy for India centred on safety, fuel-efficiency, and eco-friendliness, in India.

Safety First: VW have airbags, seat belts, anti-lock brakes and that vehicles meet some sort of government-mandated impact safety standard. It provides all of these as well as design considerations on the exterior of its cars that reduce the risk of injury to pedestrians in case of a collision. The product and marketing strategy focused on safety first, marketed to professionals and young families of the middle class in India.

Lean and Green: Volkswagen developed diesel engines which is the best option to Indian market models. Unleaded gasoline is heavily taxed in India. Diesel, on the other hand, is taxed at a much lower rate because it is also used to power trains and buses. Diesel fuel is also less expensive to refine and it is cheaper. Right emissions control systems and diesel engines are also more environmentally friendly than gasoline engines which VW practices. People choose eco-friendly cars these days.

BCG Matrix

Critical analysis: BCG helps VW to focus on both its performing and underperforming products. It helps Volkswagen to formulate relevant strategies for respective products for instance to reduce cost on advertising

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on star products and thereby reducing the prices of products by giving discounts to customers to make them delighted and contented and promoting dog products by promotional offers like one plus one free to clear inventories or abandoning their production to avoid outflows of cash.

Stakeholder analysis

Critical Analysis: The Company's corporate strategy is to maximize return of its investors and grow in market share by benefitting all stakeholders. The company tries to thrive on its innovation and quality products.

Strategic Development

School of thoughts

The company uses aggressive price tags and high-decibel advertisements to market its products. It designs and positions its own innovative products. It plans to gain maximum market share by providing quality products and ensuring customer satisfaction. For instance on launch of Polo, VW had formulated its marketing strategy and the level of its market share in context with Swift and i10. VW is thriving on its internal capabilities and taking precautions from external threats and analyzing its opportunities decide their strategic competitive edge and try to focus on their strategies and competing with their competitors.

Gaps and their recommended strategies

Geographical regions limitations: There are some markets which have still not been able to be tapped by Volkswagen which makes it less available in certain regions, thereby making it loose from its competitors like Maruti, Honda and Tata Motors which dealers all over India.

Targeted audience: Volkswagen at the moment is catering only middle and upper segment income people. It should increase its target audience or design different products like Tata Nano for general people too.

New entrants: VW knows that the new entrants are entering the automobile industry. It should keep on adding new products to its portfolio so that it does not lose its market share against new entrants.

Usefulness of models and concepts and theoretical frameworks

To analyze the environment of Volkswagen both internal and external analysis is mandatory in order to let Volkswagen formulate its strategy in competition with its competitors. For internal analysis SWOT and BCG have been used and for external analysis PESTEL and Porters' five force models has been used. These have been very beneficial in order to decide Volkswagen's competitive advantage over its competitors.

SWOT helps company to generate new ideas of its strengths, Weaknesses, Opportunities, and Threats It helps the company to sell its expertise of strengths, work on its weaknesses and make proper use of its opportunities. It helps in formulating strategies which can act as barriers from actions taken by competitors and can improve upon their weaknesses.

PEST analysis identifies the external business environment and is an appropriate strategic tool for understanding the environment in which business operates. It enables the company to take advantage of the opportunities and minimize the threats faced by their business activities. When strategic planning is corrected, it provides a solid plan for a company

to grow into the future. It may help the company to be aware of its threats and help the company to anticipate the problems it might face and develop strategic decisions according to their needs in advance.

BCG matrix is important for a company with a well diversified product portfolio. They should be aiming to have a range of product types from “ stars” to “ cash cows”, but hopefully no “ dogs” and few “ problem children”. The company adopts different strategies for different products. The company has to decide which products it would like to continue with and which are generating profits. A new product that has a high market share in a rapidly growing market is a “ star” and it might turn into a “ cash cow” in the future when the market growth slows down. A product that has a low market share in a growing market is known as a “ problem child” for obvious reasons and the firm will have to look at various marketing strategies to avoid it becoming a “ dog” in the future. Products which only involve outflow of cash are called dogs and should be stopped being produced.

Porter's five force model has five elements all necessary to decide upon the strategic decisions of the company, it helps to know the industry analysis which includes segments like buyers , suppliers and threats from entrants and substitutes. It also helps in judgment of external factors that may affect the company and may disrupt its functioning due to high competition . Porter's five force model also helps in evaluating what are the core competencies of the company and how it can ensure the level of high efficiency.

Thus a mix of all models are necessary for well-developed strategy that can be used by a company to combat its competitors and design necessary strategies to ensure that they do not get out beaten by their competitors and ensure quality of products and remain the company with maximum market share and earn the highest revenues.

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Appendix 1

Volkswagen Models:

Volkswagen Polo

Volkswagen Jetta

Volkswagen Passat

Volkswagen Vento

Volkswagen Beetle

Volkswagen Phaeton and

Volkswagen Touareg

Audi Models:

Audi A4

Audi A6

Audi A8

Audi TT

Audi R8

Audi Q5 and

Audi Q7

Appendix 2

The Indian passenger car market had the turnover of 1, 62, 708. 77 crore in the year 2010. The vehicle sales grew 29% in the year 2010.

Substitutes for Passenger cars are:

Two-wheeler vehicle

Three-wheeler vehicle

Major Passenger car players:

Maruti

Hyundai Motors India

Tata Motors India

General Motors India

Honda Siel cars India

Ford

Volkswagen

Factors that affect Passenger car industry are:

Inflation- Rise in general price level leads to increase in prices thereby leading to overall increase in the price of final product.

Increasing cost of raw materials- Price of material like steel which is a necessity for production of car is increasing day by day.

Competition- There is many producers producing similar products so there is an intense competition in the market for existence.

Appendix 3

Consumers: Volkswagen commits in providing best products to its customers in terms of security, safety and durability. Volkswagen India is continuously involved in adding new models to its product portfolio. It also provides after sales services for the customers satisfaction to build goodwill among the customers.

Communities: Volkswagen is engaged in supporting the communities where they exist. Volkswagen engages in social projects at all of its sites worldwide. Volkswagen Group India donated bus for children's home in Pune.

Volkswagen also takes initiative to protect the environment and ensures that all its resources are utilized well. Volkswagen launched its new edition of Passat in India with BlueMotion technologies. BlueMotion Technologies is the umbrella brands for all the VW products and technologies that make its vehicle more efficient and make a significant contribution towards protecting the environment and not neglecting the economical aspect of the vehicle.

Employees: Volkswagen offers attractive employment opportunities, provides job security, remuneration in line with performance and personal development opportunities to its employees. Volkswagen ensures that all its employees are provided with healthy environment to work, and ensures that the right person is appointed for the right job. Volkswagen also ensures the workers are working and utilizing the resources effectively to produce products which are in accordance with the standards.

Investor: Volkswagen provides maximum return to the investors. It tries to create new opportunities and work upon its excellence. Volkswagen on regular basis gets its results audited and displayed where investors are shown the overall growth of the company.

Suppliers: Pepsi's suppliers are competitive and ensure that they increase profit of margin by cutting cost. They ensure that their output is as per standards and none of the legal aspects are violated.