

Institute of Management



University of St.Gallen

## Case Study

# The Volkswagen Group

## Part A: 2002 - Aug 2015

### Reaching for the top

In progress:

**Part B (Sept-Oct 2015)**

**Disaster in the integrated corporation**

This case was written by Günter Müller-Stewens (University of St Gallen) and Joachim Stonig (University of St. Gallen). We thank Thomas Schlenzig and Manuel Strasser who helped to write, refine and improve the case significantly. The case is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

This case will be part of the University of St. Gallen case collection at the Case Centre:  
<http://www.thecasecentre.org/educators/ordering/whatsavailable/collections/stgallen>

© Aug 2015, Version 1.1, University of St. Gallen

No part of this publication may be copied, stored, transmitted, reproduced or distributed in any form or medium whatsoever without the permission of the copyright owner.

"I'm profoundly convinced that we can be the world's most successful car producers in a few years"<sup>1</sup>, said Martin Winterkorn in 2007, one year after becoming CEO of Volkswagen AG. "VW conquers the world. Germany's biggest carmaker is leaving rivals in the dust." was the Economist cover story on 7.7.12. And the 2014 financial year seemed to confirm Winterkorn's prognosis. Sales of €202.5 bn. (2007: €108.9 bn.) succeeded in toppling Toyota's status as best selling automobile group (Toyota: 2007: €159.7 bn.; 2014: €191.5 bn.) thus attaining Winterkorn's goal in terms of sales. But the jubilation accompanying the Number 1 position was dampened in early 2015 by significant conflicts surrounding the corporation's future orientation. The strong growth and financial success of the Volkswagen Group appeared to be masking fundamental problems arising from the complexity of the enterprise and its market position. Ferdinand Piëch, Chairman of the Supervisory Board, is not convinced that the Volkswagen management recognises the gravity of the problems and is in a position to master these challenges.

With his statement made on 10 April 2015 via Spiegel Online: "I'm keeping my distance from Winterkorn", the Chairman of the Supervisory Board and major shareholder Ferdinand Piëch set off an earthquake within the Volkswagen leadership. In the past, the grandson of the legendary company founder Ferdinand Porsche and former CEO of Volkswagen from 1993 to 2002 had succeeded in having CEOs hired and fired at will. The management crisis in the wake of the interview and discussion of the competencies of Martin Winterkorn and Ferdinand Piëch led to a short-term drop of €1.37 bn. or 2% in Volkswagen's market value. In a crisis meeting of the six-member Supervisory Board of Volkswagen AG on 16 April 2015 in Salzburg, efforts were made to calm the situation. Ultimately the board declared its confidence in Martin Winterkorn with just one opposing vote. A clear defeat for Piëch at this time, who went on to resign his position. But, at best, this declaration bought time to find answers to the open questions concerning the Volkswagen Group that Piëch was probably justified in raising.

Volkswagen would not have been the first car company to manoeuvre itself from a successful situation with high growth into serious problems. Toyota too had overreached itself with its rampant growth up to 2012, as quality had taken the back seat to growth targets. The resulting costly recalls not only caused serious financial damage, but also seriously dented its image.<sup>2</sup> So Winterkorn faced questions in August 2015 as to whether his corporation had attained such a magnitude, above which manageability is lost and complexity costs take the upper hand over the advantages gained from integration and the system approach. However, Winterkorn, strengthened by the vote of confidence from the Supervisory Board, still continued to focus on growth: His goal: to make the Volkswagen Group the world's biggest carmaker by 2018, also in terms of numbers of vehicles sold (2014: Volkswagen Group 10.22 mil. vehicles; Toyota: 10.23 mil.).<sup>3</sup> But, to reach this goal he needs to find answers to the corporation's open questions.

**Multimedia tip:** <https://www.youtube.com/watch?v=r9qYXBU6jo4> (Martin Winterkorn speaks on his goals for Volkswagen – 12 min – in German)

## 1. The development of the Volkswagen Group

Volkswagen looks back over a long and eventful history. Since its foundation almost 80 years ago in 1937, the enterprise has experienced many ups and downs. Superb engineering achievements and breath-taking expansion phases alternated with management crises, scandals and blunders. So the question arises whether the enterprise will soon find a consistent path of development or whether the roller coaster ride will continue.

### *Founding history*

The history of the Volkswagen Group starts in the time of the Third Reich. In 1934 Adolf Hitler called for a car to be built for broad sections of the population. His vision was the construction of a car "fit for the autobahn" that can keep up a cruising speed of 100 km/h, and with its four seats is suitable for families and above all costs less than 1,000 Reichsmarks. Ferdinand Porsche received the development contract from the "Reich Association of the Germany Automobile Industry" in 1934 to build a prototype. The *Gesellschaft zur Vorbereitung des Volkswagens mbH* [Company for the Preparation of the German People's Car Ltd.] was founded in Berlin on 28 May 1937 by the National Socialist organisation "*Kraft durch Freude*" [Strength Through Joy]. The outbreak of World War II meant that the mass production of this 1,000 Reichsmark vehicle never materialised, which, in view of the calculated production costs of 2,070 RM would also have been a major loss-making operation. During the war, the Volkswagen plant was switched to producing military equipment. Around 20,000 people had to do forced labour here, including prisoners of war and inmates of concentration camps. Ferdinand Porsche's son-in-law, Anton Piëch, father of Chairman of the Supervisory Board Ferdinand Piëch, was plant manager and one of three general managers here from 1941.<sup>4</sup>

In 1945 the first VW Beetle was produced, which proved a great success. The one millionth Volkswagen had rolled off the production line by 1955. *Volkswagenwerk GmbH*, which, since the founding of the Federal Republic of Germany, had belonged to the federal state of Lower Saxony was converted to an *Aktiengesellschaft* [public company] and partly privatised in 1960. But Lower Saxony only agreed to this partial privatisation on the condition of receiving a holding of at least 20%. This would ensure a blocking minority, i.e. a right of veto in all important decisions. The German government received a further 20% holding, which it went on to sell in 1988, however.

Since 1985 the name of the enterprise is *Volkswagen AG*.

### *The 'VW Law'*

This era of partial privatisation also brought forth the so-called 'VW Law' which came into force in 1960. Normally, large German corporations have supervisory boards with 20 members with seats for the owners' side and ten for the employees. On account of the 20.2% share held by the federal state of Lower Saxony, the Minister-President and Minister of Economic Affairs of the state sit on the owners' side of the Supervisory Board. This is an anomaly in the international context.

But then again, everything is different at Volkswagen. Art. 4, para. 2 of the VW Law states that the establishment and relocation of production facilities requires a two-thirds majority of the supervisory board, which de facto means that in locational decisions - thus also indirectly affecting the vertical range of production - firstly the Supervisory Board is granted co-determination and secondly the employee side the right of veto. It has to be borne in mind that around 100,000 of the 600,000 jobs are in the state of Lower Saxony. In Art. 4, para. 3, the VW Law goes on to specify that important decisions made at the Annual General Meeting require an 80% majority - otherwise this is 75% under German stock corporation law. The state of Lower Saxony holding shares of more than 20% therefore has a blocking minority for amendments to the statutes, dismissal of Supervisory Board members, M&A, capital increases etc.

Originally, the law also includes a *restriction of voting rights*, which meant specifically that no shareholder can exercise more than 20% of voting rights, even if they own more shares. The *restriction of voting rights* had to be relinquished in 2008 under pressure from the EU Commission.

### ***Structure of the brand portfolio***

Besides car production, Volkswagen AG has expanded its commercial vehicle division (small and medium-sized transporters) since the 1950s. In the 1960s it then made initial efforts in diversification also aimed at expanding its brand portfolio in the car sector. The company portfolio was enhanced in 1965 with the Auto-Union brand, which, together with NSU Motorenwerken, had been acquired and merged to form the Audi brand. Later came majority shareholdings in the car companies Seat (1986) and Škoda (1990). Volkswagen intended for these brands to open up access to new markets (e.g. Eastern Europe with Škoda) in which its presence was still very low key at this time. Aimed at optimising and strengthening the Group's organisational structure through cross-brand activities, in 1991 the financial services were unified under the umbrella of Volkswagen Finanz. Additional brands were acquired with Bentley Motor Cars (1998), Bugatti (1998) and Lamborghini (1998, under management of Audi).

A dramatic chapter in the history was Porsche's attempt to take over the Volkswagen Group. Under the management of the Porsche CEO Wendelin Wiedeking, Porsche Automobil Holding SE announced on 16 September 2008 that they had raised their stake in Volkswagen AG to 35.14% and held options to acquire a total of 74.1% of Volkswagen shares. Exercising the options would have made Volkswagen AG into a Porsche subsidiary. As a further 20% of the Volkswagen shares are held by the federal state of Lower Saxony and Porsche had built up this large package of shares and options, Volkswagen shares were in short supply. Speculators who had previously engaged in selling short, i.e. speculating on falling Volkswagen share prices, ran into severe problems. As the speculators were forced to buy large quantities of Volkswagen shares, the share price topped the 1,000 Euro mark on 28 October 2008, over three times higher than the previous trading days. On 5 January 2009 Porsche announced that it held 50.76% of the Volkswagen ordinary shares making it the majority shareholder of Volkswagen AG. The declared aim was to create an integrated automobile group with Volkswagen AG. The financial crisis following the collapse of Lehman Brothers changed the conditions fundamentally, however. Porsche was no longer in a position to service the loans it had taken out for the Volkswagen takeover. To prevent Porsche's

payment default, a merger took place with Volkswagen, whereby Volkswagen AG, thanks to its considerable liquidity reserves, now took control. Consequently, the Supervisory Board resolved to create an integrated group of companies under the Volkswagen roof and the stepwise merger and integration of Porsche in the group structure. This was completed in 2012, which, given the family ties between Porsche and Piëch was often described in the media as the completion of Ferdinand Piëch's life's work. Porsche plays a major role in the Group's strategic goals, as the specialised carmaker represents an attractive and highly profitable addition to the previous product portfolio. Besides possible synergies, Porsche is well placed to cover the sports car and upper premium segments. The Volkswagen Group can also learn from Porsche's core competence in developing high performance sports engines.<sup>5</sup>

With this brand portfolio, Volkswagen is established on a broad footing. Škoda and Seat in the mass market; Volkswagen as a mid-range core brand; Audi in the premium market; Porsche, Bugatti and Lamborghini in the sports car market. Eleven million vehicles are to be sold by 2018 across all brands overtaking Toyota as the manufacturer with the most vehicles sold.<sup>6</sup> A similar market leader position is strived for in the commercial vehicle sector in which Scania (2008) and MAN (2011) were assimilated into the Volkswagen Group.

### ***Production***

Not only brand diversification has been advanced, but also the geographical diversity of production. Volkswagen has an extensive global production network, which has been continuously expanded with growth. As one of the first carmakers, Volkswagen entered into joint ventures with local manufacturers in China as long ago as 1981. The corporation operates over 100 sites and factories worldwide.

Until recently, one of the last remaining white spots in the global network was North America. So in 2011 Volkswagen opened a plant again in the USA for the first time. This is a comeback after Volkswagen had to stop production of the Golf in Westmoreland, Pennsylvania in 1988. A model that was not adapted to the US market and inadequate quality were probably the main causes for the withdrawal back then.<sup>7</sup> The new plant in Chattanooga, Tennessee produces two models - Passat and Jetta. Another model, the "Cross Coupe GTE", is set to roll off the line there in 2015. The aim of production in the USA is to improve VW's relatively poor position on the US market.

The production facilities are configured such that they can be used for several Volkswagen Group brands. The reason for the versatility of the factories is the *platform system* to which the corporation has been committed since 2012. In the past, each of the 100 or more plants worldwide built just one model. Today, 18 plants are in a position to also manufacture different models and makes "bumper to bumper". The platform system provides clear guidelines for development and production. With regard to the production process, each factory in the Volkswagen Group is defined according to the same modules, irrespective of whether the factory is in China or Mexico. The idea is that every Group technician should immediately find their bearings. The system is even stricter in terms of the development of models: The modular transverse and longitudinal platforms defined by Winterkorn and his confidant Ulrich Hackenberg form the basis for all models from Audi, Seat, Škoda and Volkswagen. Development and construction may only be pursued that fits

into the logic of the precisely defined technical framework. Hackenberg is responsible within the Group for the entire technical development. Through the use of modular platforms, parts can be purchased and manufactured in larger quantities, so costs are reduced and efficiency raised.

### ***Market position***

The Volkswagen Group can look back over very strong growth in 2015. Turnover and vehicles sold have almost doubled since 2007 and earnings nearly tripled (net profit 2007: €4.1 bn., 2014: €10.8 bn.). With a return on investment in the automotive sector of almost 15% in 2014, which clearly exceeded the target of 9%, value is also created for the investors.

Although the financial figures were good in 2014, a differentiated picture emerges for the corporation depending on the brand and country. The activities in the USA have had little success so far and there are certain difficulties in Asia and weaknesses in Latin America.<sup>8</sup> VW's weak market share of 2.2% in the USA (in 2014), as mentioned, is a thorn in the side for the Supervisory Board. Here it is a long way from seriously challenging the market leader Toyota, which holds a 14.4% market share. The performance in the emerging countries is also mixed. VW had a significant position in Brazil in 2012 with a market share of 22% and is growing steadily in Russia (market share of 9% in 2012).<sup>9</sup> But the corporation is faltering in India following the failed pact with Suzuki. The market share is dropping towards 3%.<sup>10</sup>

The strongest selling brand VW with its operating return on sales of 2.5% is still lagging far behind its targets and the frontrunners Porsche (15.8%) and Audi (9.6%). The aim is to increase the operating margin to 6% by 2017 by means of process optimisation, complexity reduction and other cost reduction measures amounting to €5 bn. But this will not be easy without contesting the importance of Germany as a business and investment location. When it comes to cost savings, the weight of employees in the Supervisory Board (10 of the 20 seats on the Supervisory Board are allocated to employees) is a significant factor, which makes closures and cuts almost impossible in Germany.

## **2. The way to world leadership 2002-2014**

In this section we want to take a closer look at the years after Ferdinand Piëch's departure from corporate management and the era of the two CEOs Pischetsrieder (2002-2006) and Winterkorn (2007-2015).

### ***Cost focus under Bernd Pischetsrieder (2002-Nov 2006)***

Bernd Pischetsrieder took over corporate management from Ferdinand Piëch in 2002 who switched to the Supervisory Board. Despite record earnings in 2001, the situation is anything but rosy. Sales drop by almost 2% in 2002, and earnings by no less than 12%. Poor economic developments and intensive competition threaten Volkswagen Group's leading position in the European automobile market.<sup>11</sup> Aggressive competition mainly comes from Japanese and European rivals. Volkswagen only ranks as the world's 5th biggest car producer.<sup>12</sup> Buying

restraint among potential customers and unfavourable changes in the US dollar to Euro exchange rate mean that earnings also turn out well below forecasts in the following year.<sup>13</sup> The main plant in Wolfsburg is now only running at 70% capacity and the first reports of possible layoffs are circulating in the media.<sup>14</sup>

But Pischetsrieder is not considering a fundamental change of direction. He intends to pursue and improve the strategy initiated by Ferdinand Piëch. His first priority is cost reduction, because Volkswagen does not even cover capital costs in 2002. And the numerous acquisitions from the Piëch era also burden Pischetsrieder's start. According to analysts, the complexity introduced into the portfolio by Bentley, Bugatti, Lamborghini and the VW Phaeton developed in-house deflected the focus from the core products.

Despite a sales record in 2005 and retaining market leadership in Western Europe, Germany and China, the corporation's situation only showed slight improvement. Massive increases in raw material prices, high labour costs and global production overcapacity, together with intensifying price competition and discount battles and quality problems in its own production are problematic for Volkswagen.<sup>15</sup> Furthermore, the year 2005 is overshadowed by a corruption scandal, causing further unrest.<sup>16</sup> The misdemeanours of individual employees (staff council members' luxury travel and brothel visits at company costs etc.) caused the model of cooperation between unions, Management Board and federal state government in the Group's Supervisory Board to attract public criticism. Personnel Manager Peter Hartz, in whose field of responsibility these incidents occurred, resigned as a result.

During his time as Chairman of the Board of Management at Audi, Martin Winterkorn experienced the work of his predecessor from 2002 to 2007. The most important thing for Pischetsrieder was to reduce costs and realise extensive synergies in the corporation.<sup>17</sup> Pischetsrieder is also intent on streamlining the model portfolio. He makes all the final decisions and decides on questions of brand coordination. The question of whether a customer segment is better serviced with an Audi or a Bentley model is decided by him.<sup>12</sup>

Specific cost reduction measures followed with the *ForMotion* programme at the beginning of 2004. It addressed seven key areas in total: production costs, one-off expenditures, overheads / process optimisation, sales performance enhancement, commercial vehicles, financial services, as well as foreign sales subsidiaries. The savings targets determined individually for each key area were intended to exploit market opportunities, optimise processes and reduce production and overhead costs, as well as reducing one-off costs.<sup>18</sup> Ultimately the Group-wide programme saved no less than 3.5 bn. € in excess of the envisaged €3.1 bn.

The cost saving measures include dissolution of some brand and Group functions. Competences are also to be scrutinized and redistributed as necessary. The success of the first *ForMotion* programme induced the Management Board to pursue a new performance enhancement programme from the start of 2006 through to 2008 - *ForMotion plus* - in order to successfully continue the modifications introduced.<sup>19</sup> But Pischetsrieder was not to receive the opportunity to implement this second cost reduction initiative.

His contract was extended in May 2006 to 2012. But even at this time, the Chairman of the Supervisory Board Piëch expressed doubts whether Pischetsrieder was the right man at the top for

the years to come. He publicly announced that for him the contract renewal was an "open question". So, behind the scenes, Piëch was working on deposing the CEO. Although the Supervisory Board had expressed its confidence in him in May, Pischetsrieder had to relinquish his post in November. Following prolonged wrangling, Piëch had convinced enough board member to make a CEO change. Martin Winterkorn, the Audi boss and Piëch's close confidante, took over as the Group CEO.<sup>20</sup>

### ***Ambitious goals under Martin Winterkorn (Nov 2006-2010)***

Winterkorn's first act in office was to present his ideas on restructuring the management board and the governing bodies at a meeting with the Supervisory Board. The essential reorganisation provided for expansion of the Group Management Board with three new portfolios: Research & Development, Production and Sales. A brand committee was also set up to include the head of corporate communications and the CEOs of the VW, Škoda, Bentley, Audi, Seat and VW Commercial Vehicles brands. The developments of the Management Board structure is presented in Figure 1. Within the new organisational structure, Winterkorn takes over the roles of the CEO and of Chief Research and Development Officer.<sup>21</sup>

At the beginning of his term of office, Martin Winterkorn managed to profit from his predecessor Pischetsrieder's cost-cutting efforts. At his first annual press conference held on 9 March 2007 he announced good news to the media: deliveries had risen by almost 10% as compared with the comparable previous-year period, operating earning had also nearly tripled. As his biggest project, he announced a restructuring of the corporation. Winterkorn sees "... *the greatest potential for the corporation in the substance of the brands.*"<sup>22</sup> The brands should therefore receive full autonomy and responsibility for a large part of their overall business. Only this way can the brands successfully sustain their own distinct image and target group oriented presence. Despite these announcements, Winterkorn remained the dominant decision-maker in the corporation who personally approved new models, as well as deciding on conflicts between brands.

The most visible sign is the new financial reporting structure, now managed separately for each brand. But the organisational changes are of a profound nature. Although the division between the corporate divisions of Automotive and Financial Services continues, the organisation of the Automotive division is fundamentally reshaped. Until 2006, the Automotive corporate division was structured under the leadership of VW and Audi (see Figure 2).<sup>23</sup> The restructuring effective from 2007/08 provides for dissolution of these brand groups with the aim that the brands exist independent of one another in the Automotive corporate division (see Figure 3). The Group-wide central function was to be questioned and possibly changed in conjunction with the newly created Management Board divisions.<sup>24</sup> The brands Scania, MAN and Porsche, which joined the Group in the years 2008, 2011 and 2012, are to be managed as autonomous business units in the sense of this new organisation. Only the niche brand Lamborghini continues to be subordinated to Audi, and Bugatti is part of the VW brand. In addition, Ducati is also under Audi since its acquisition in 2012 and is not managed autonomously in the structure.

But despite the significant organisational changes moving towards more structural autonomy of the brands, Winterkorn planned to continue the efforts of his predecessor to achieve more efficiency

and synergies. One cornerstone of this is the continuation of the *ForMotion plus* initiative, whose aim was to raise consolidated earnings before taxes to at least €5.1 bn. (compared with €4 bn. in 2004) and to generate a ROI in the Automotive corporate division of at least 9%. These quantified objectives were to be achieved across all brands and companies by 2008. *ForMotion plus* nominated four key areas to be controlled centrally across the Group: sales performance enhancement, material costs, processes, and capital intensity.<sup>25</sup> In the previous initiative *ForMotion* there were 7.

The key area of Sales in the *ForMotion plus* programme illustrates the corporation-wide nature of the initiative. The goal is also to promote the cooperation between the car dealerships and the financial services division. In addition, the sales strategies of the brands were to be better coordinated with one another. The programme initiated on the corporate level is not easy to roll out for all business units. Too ambitious, too abstract, not specific enough, not realistic - these were the most common criticisms within the Group. A comprehensive employee and communication campaign was conducted in order that the programme is still supported by the brands. The entire management was to be informed about current topics and progress in the *ForMotion* dialogue planned to take place regularly.<sup>26</sup>

Implementation of the programme is a priority for Winterkorn. Asked about the key success factors for the corporation, among other things, he was of the opinion that: *"Internally it is imperative that we improve the processes in the Group and realize synergies."*<sup>27</sup>

Efficiency improvements, as with the *ForMotion* initiatives, are important, but growth has special significance for Martin Winterkorn. Strong development of the individual brands leads to a rise in delivery figures in 2007 to around 6.2 million vehicles (2006: 5.7 mil.). The strong growth in China, South America, as well as in Central and Eastern Europe is crucial here. Winterkorn sees the potential to continue this strong growth over the long term. He announces an ambitious goal: Volkswagen is to overtake Toyota as the biggest selling automobile manufacturer and *"become the most fascinating and future-oriented automobile enterprise in the world."*<sup>28</sup>

This ambitious growth target is to be attained with new models in all brands. The model initiative provides for bringing over 20 additional models onto the market in the years from 2008 to 2010. The successors of established models, such as the big sellers VW Golf or Škoda Octavia are part of the model initiative, but also completely new vehicle types. New models are intended to open up new segments that are not yet sufficiently occupied. Here the emphasis should, above all, be on SUVs, pick-ups, vans, but also on smaller vehicles in the entry segment, as these are of increasing importance for the markets in the USA or the BRIC countries.

Targeting regional customer needs with the aid of the global production network should reinforce market positions in the individual countries. At the same time, specific research is directed towards alternative transmission concepts for an environmentally friendly CO<sub>2</sub>-neutral future.<sup>29</sup> On the question where he sees the Volkswagen Group in ten years, Winterkorn says confidently in 2008: *"This company, its brands and, above all, its people have an almost inexhaustible potential. [...] In ten years we will be the benchmark for customer satisfaction, attractiveness for employees, quality, return and also with our commitment to the environment and society."*<sup>30</sup>

Winterkorn can call upon a portfolio of strong brands to turn the ambitions into reality. Every brand in the corporation takes on a special role here: the VW brand is the centrepiece of the

enterprise and should offer quality in the upper mid-range segment. The Audi brand with its modern and progressive image is located in the lower premium segment. Both Škoda as well as Seat should offer good value-for-money in the volume segment, whereby their target groups differ. The Czech subsidiary Škoda stands for "clever space concepts" and is located below VW in terms of price. Seat plans to sharpen the brand into a more dynamic and younger design. Bentley, Bugatti and Lamborghini enjoy a certain special status as luxury brands. They are intended to attract international acclaim for the Group through their unique image.<sup>31</sup>

The autonomy of the brands that Winterkorn decided for shortly after taking office especially relates to the "front end", i.e. to appearance in particular and everything the customer perceives directly. The corporation's overriding management principle is: "As decentralised as possible, as centralised as necessary."<sup>32</sup>

All brands are to contribute with new models to successively raising group sales, but without significantly pushing up costs. This is made difficult by the fact that a new model also has to be adapted to regional needs. The complexity in manufacturing increases significantly as a result. The greatest possible standardisation, while accommodating customer needs, this is the task for the Volkswagen Group management. In 2013 Winterkorn formulated his demands placed on the model developers to create an unmistakable customer experience, despite a standardised modular system: "*I get into the car and with my eyes closed have to sense whether it is a Škoda, a Seat or a VW.*"<sup>33</sup> Some analysts believe that Winterkorn was thus attempting to square the circle.<sup>34</sup>

The financial crisis and subsequent economic crisis starting 2007/2008 does not deflect Winterkorn from his ambitious objectives. On the contrary, he sees the weakness of his competitors as an opportunity for Volkswagen. Competitors such as US manufacturers Chrysler and General Motors (GM) are particularly affected by the decline in demand in their home market. Chrysler can only survive with public subsidies running into billions, insolvency proceedings and a new investor. GM shares a similar fate at the end of which there is partial nationalization.<sup>35</sup> Thanks to its diversification in the preceding years, the Volkswagen Group with its significant spreading of risks is well placed to get through the crisis. Nevertheless, temporary staff are laid off and short-time working introduced at some plants. Government stimulus packages were also responsible for emerging relatively unscathed from the crisis, as well as guarantees for the financial services division. The corporation even manages to expand its good position in the BRIC countries during the crisis. The most turbulent time in the crisis was certainly the failed takeover attempt by Porsche that ended in Porsche becoming the 12th brand in the Volkswagen Group (see section 1).

The aim of becoming the Number One in the automotive industry was continuously pursued energetically despite the crisis. One milestone in this regard is adopting the "Strategy 2018" in 2009 and the associated goal of making the Volkswagen Group the world's economically and ecologically leading carmaker by 2018.

Volkswagen's path to market leadership is based both on increasing sales, as well as on improving costs and therefore profitability.

### ***Growth under Martin Winterkorn with the "Strategy 2018" (2015-2015)***

The "Strategy 2018" superseded its successful forerunner "Strategy 2015", which had undergone several adjustments and now merged into the new "Strategy 2018". The four central target elements of this strategy for the corporation are: increasing sales, operating margin, quality leadership and employee satisfaction<sup>36</sup> (see Figure 5).

As clear the objectives of the new strategy, as complex is the way of achieving them. Which contribution is to be accomplished by the individual brands, which tasks lie with the Group HQ? The goals of the Group were precisely assigned to the brands in the ongoing group strategy process with a 4-part goal structure encompassing return on investment, vehicle sales, employer ranking and brand-specific goals (e.g. customer satisfaction) (see Figure 6).

On 3 February 2010, Winterkorn presented his "Strategy 2018" to the public for the first time at an investor conference. The mid-term goals strived for with "Strategy 2018" were substantiated, targeted measures for goal attainment introduced, and a timeframe for the planned fusion of Porsche and Volkswagen was presented. The sales growth was to come about by expanding the product range. Cross-brand research focus areas are set in the development of low-emission engines and innovative forms of transmission. The "strategy rhombus" supplemented with six main initiatives and an overview of the implementation measures is a core element of the presentation.<sup>37</sup> The initiatives are (1) focus on growth markets, (2) modularisation of models, (3) discipline in the investment of capital, (4) progress in operative profit, (5) leverage of synergy potential, as well as (6) exploitation of potential upsides (see Figure 7).

One important aspect of the strategy rhombus is to make the Volkswagen Group the top employer. The underlying assumption is that a top employer attracts motivated and committed employees who, in turn, contribute to realisation of the corporate goals. Here the Group depends on performance-oriented remuneration systems, from the apprentice through to the top manager. For staff development, Volkswagen cooperates with universities and is home to the Volkswagen Group Academy. The Academy ensures worldwide standards for vocational training of master craftsmen, prospective managers, as well as quality and competence standards.<sup>38</sup>

Equally important for realising the objectives of "Strategy 2018" is the systematic exchange of Best Practices between the corporate divisions. These are e.g. identified by benchmark indices from integrated controlling systems and transferred from one business unit to another. This helps the Volkswagen Group learn quickly and efficiently and achieve scale and synergy effects.<sup>39</sup> An integrated controlling and planning system is used so as to be in a position to compare cost and revenue structures, for consistent accounting data and its plausibility evaluation across the corporation.<sup>40</sup>

Volkswagen's growth since the economic crisis is impressive. In contrast to competitors such as PSA or Opel, Volkswagen managed to invest significant amounts in new plants and model developments during the crisis. The models met customer wishes in terms of design, quality and price. The sales tactics were and are really aggressive, especially in Europe. This led to Volkswagen raising its market share in Europe from 18% in 2005 to 24% in 2012.<sup>41</sup> In China too, Volkswagen is able to significantly expand its historically developed position as market leader.

### ***Efficiency increases in production since 2008***

The industry leader Toyota is not only the benchmark for the entire automotive sector in terms of sales, but particularly for its efficient manufacturing process. The "Toyota production system", which is strongly based on the Japanese Kaizen tradition (principle of continuous improvement) is the foundation for Toyota's success. Hardly any other car producer with such high unit volume attain such high productivity with consistent quality.<sup>42</sup>

In response to the Toyota production system, the "Volkswagen Way" is elaborated. The "Volkswagen Way" optimisation programme describes the philosophy how work processes are to be configured in the Volkswagen Group. Annual productivity growth of 10% is the declared target with its introduction in 2007. The Volkswagen Way describes an integrative development process that is starting at the VW brand. Every employee is involved and is expressly called upon to propose innovative optimisation approaches to contribute to a continuous improvement process. If a certain working practice, organisation or a specific process has become established for the VW brand, Group-wide establishment is strived for as a standardised Best Practice. Ultimately, the Volkswagen Way is intended to contribute to anchoring efficient working methods for all brands. The result should be an improvement in quality and profitability of the products, irrespective of the model, production location or brand.<sup>43</sup>

The efficiency initiatives *ForMotion* and *ForMotion plus* more than fulfilled their targets. On expiry of the *ForMotion plus* programme, the Group Management Board was fully aware that further profound changes would be necessary to achieve a long-term competitive cost position. An integrative overall process extending over various functions (e.g. research, development, procurement, production) is to form the basis for future work in and between the individual brands. The solution reached to achieve both customer proximity, as well as cost efficiency across the group, is to be the use of modular platforms. The core idea is to use as many of the same parts as possible in different vehicles, independent of brand, location or segment in order to achieve scaling effects. It is conceivable, for example, that a single air conditioning model is used in most of the Group's brands, which only differs in the cladding for the customer. Besides lower unit costs, higher flexibility should also be achieved in production. As modules are used in diverse vehicles, production can promptly be adapted to the respective demand. The platforms are therefore a complexity-reducing mechanism that allows a high number of model types, options and individual car configurations, as well as a high degree of identical parts.

The platform system was developed under Ferdinand Piëch in his time at Audi and was later tested and established under Winterkorn in the form of the modular longitudinal matrix (*MLB*).<sup>44</sup> A platform system of this kind is now to form the basis for Group-wide production. The selected technical solution for the future is the modular transverse matrix (*MQB*). This is intended to form the technical foundation for numerous of the Group's vehicles in the field of small and mid-sized car segment. The name *MQB* is derived from the architecture of the engine, which is mounted cross-wise to the direction of driving. This configuration allows the production of vehicles, which, despite differences in length, widths or wheelbases, have a high level of identical parts. According to Volkswagen, cross-brand standardisation forms the next quantum jump in the origin of Group-wide unified processes. This is by no means restricted to engine components, but also applies to electronic parts, infotainment (*BIM* - modular infotainment matrix) and software components.

The modular platform is then not only applied for individual components, but also in complete functional areas, e.g. with the Stop & Go automatic distance control function. Over time, the principle should be tested in all areas of vehicle production and development (bodywork, chassis etc.) and applied as appropriate.

As the first site, bodywork manufacture was modified onto an MQB platform at the main plant in Wolfsburg in October 2010. In view of the successes (see Figure 4), the concept of the modular production platform was further elaborated in 2011. Integration of all platforms is understood under the term MPB (modular production matrix). Here Volkswagen was striving to achieve far-reaching standardisation: from operating resources, through plants and the production area through to the complete factory.<sup>45</sup> In the future it should be possible to manufacture different models of the various brands on the same lines in all factories. An approach that was unique in this form in the automotive industry at the time.

The modular approaches in their entirety go hand-in-hand with the Volkswagen Way and form the basis for establishing a unified, Group-wide production and procurement system for Purchasing. Especially the centralised procurement strategy resolved in this process represents an essential lever for reducing costs. Various initiatives in procurement are designed to ensure a worldwide network of high quality suppliers at favourable prices.<sup>46</sup>

The Audi A3 launched on the market in the spring of 2012 is the first vehicle built with the help of the MQB. Only a few months later, the VW top sellers Golf and the Seat Leon followed on the same platform.<sup>47</sup> The possibility of cost reduction using the new platform is an opportunity and a risk at the same time. Because if there is a fault in the platform module, this impacts all models and could lead to costly recalls.

Now even Porsche makes use of the platform principle. The standard modular matrix (*MSB*) and the mid engine matrix (*MMB*) are used for cost saving and adherence with consistent quality.

Recently, the modular strategy is also used in production. The modular production matrix (*MPB*) encompasses the complete manufacturing process and prescribes standards for manufacturing plants. The use of the same matrix components allows manufacture to be made more flexible and faster. As a consequence, the reaction to changes in demand can be improved and costs can be reduced.<sup>48</sup>

To achieve the objectives of "Strategy 2018", over four million vehicles per year are to be based on the MQB in the future. Over 40 vehicle models are to be manufactured according to the standardised matrix principle.<sup>49</sup> The complex challenges are described by the Volkswagen Group Member of the Board for Production Michael Macht in 2012: *"The crucial question is how a powerful global production network consisting of 94 factories around the globe has to be structured to safeguard manufacture of ten million vehicles per year in consistent quality. So the aspiration for my area of responsibility means advancing profitability and process orientation - and ensuring the absence of errors in model start-ups of over 40 vehicles a year."*<sup>50</sup>

However, this platform system was not only to be applied for cars, but also the creation of an integrated group for commercial vehicles was planned. Andreas Renschler, previously a member of the Daimler AG board, was appointed to the executive board by the supervisory board on 21.2.14 to take effect on 1.2.15. As a means of structurally backing the integration strategy, the supervisory

board resolved on 4.5.15 to integrate Scania and MAN in a new  *Holding Truck & Bus GmbH* based in Braunschweig. Strategy, development, personnel, purchasing and other areas were to be coordinated across the group brands. The holding was initially to employ 40 to 50 staff, with up to 100 jobs planned. Renschler, now also chairman of the Board of Management of the new holding, was then faced with the task of setting up specific commercial vehicle processes aimed at raising the synergy potential between the brands. He said in this regard: *"Bundling our commercial vehicle brands under one roof allows greater concentration on truck and bus concerns and consequently faster decisions. The autonomy of the MAN and Scania brands is preserved, in line with the basic principle of Volkswagen."*<sup>51</sup> Volkswagen Commercial Vehicles, as a manufacturer of light commercial vehicles, is also part of this commercial vehicle holding and reports to Renschler. This holding is now also to become the worldwide market leader here. The main competitors are Daimler and Volvo. To achieve this, its presence, especially in China, India and the USA, has to be strengthened accordingly, which is probably only possible with acquisitions. Renschler is of the opinion that annual savings of €650 mil. can be achieved exploiting synergies.<sup>52</sup> A common transmission platform is planned, for example, which can then be further developed by the three brands according to their specific needs. In view of the very diverse enterprise cultures, it really is a challenge to achieve all this.

### 3. The architects of growth

The management of the Volkswagen Group is characterised to a large extent by strong leadership personalities. Since 17 November 2006, Martin Winterkorn has headed the Volkswagen Group and the VW brand. He is often described as the model student of his mentor Ferdinand Piëch's.<sup>53</sup> Piëch succeeded Carl Hahn in 1993 to become Chief Executive Officer of the Volkswagen Group. The Group was in crisis back then: high costs, too many employees, inefficient and worsening quality.

When taking up his duties in 1993, Piëch announced the objective of making the Volkswagen Group the Number One among the carmakers by 2018. He advanced key technologies (e.g. the platform technology and the "3-litre" Lupo and, as a manager, modernised the brands Audi and VW.<sup>54</sup> After Piëch switched from Group CEO to president of the Supervisory Board in 2002, Bernd Pischetsrieder moved to replace him as CEO. Through his position at the top of the Supervisory Board, Piëch was to continue holding a significant position in the corporation.

In 2002 Winterkorn took over as CEO of the Audi brand - a job that he originally did not want at all. Previously, he had held various posts on the Volkswagen Group management (including Head of Research & Development and Quality Assurance). The aim of his task at Audi was clearly defined: The brand with the four rings was to be built up to be a serious contender in the premium segment and to take on a strong position in the Group.<sup>55</sup> Winterkorn is a PhD metallurgist who always puts the quality of products for customers first. Several years later, Winterkorn answered a journalist's questions in an interview as to whether Audi had been a necessary test of maturity: *"[...] in retrospect I'm glad to have had the chance to gather experience at Audi. Ascending from development head to Group CEO would have been far harder. That way I managed to learn important topics, like the financial topics in Ingolstadt or standing in the spotlight of attention."*<sup>56</sup>

At the end of 2006, the time had come for Martin Winterkorn to take over as Group CEO.<sup>57</sup> Following lengthy public discussions, his predecessor Pischetsrieder was released by the Supervisory Board. Ferdinand Piëch was behind the personnel decision and now brought his close confidant Winterkorn to the top of the corporation. Traditionally, the CEO of the Group is also the Chairman of the Board of Management of the VW brand, so Winterkorn took up both positions in personal union. Other managers switched with him to the Group level or to the VW brand. Audi's chief designer takes over responsibility for the VW brand and Ulrich Hackenberg becomes the new Member of the Board of Management of Volkswagen Brand with responsibility for Development.<sup>58</sup>

Winterkorn describes his collaboration with Piëch in 2012: "*Ferdinand Piëch does innovations, I safeguard them.*"<sup>59</sup> So the German business newspaper Handelsblatt calls Winterkorn the "carmaker".<sup>60</sup> The Piëch-Winterkorn leadership duo is unified by the mission to make Volkswagen into the leading car manufacturer in the world.<sup>61</sup>

Despite hymns of praise in the press, the leadership of the Group was not free of criticism. For instance, Winterkorn's close associates complained that he held too much responsibility. The managers should be allowed to decide more themselves to be able to react quicker and more flexibly. For example, model introductions often had to be postponed at enormous cost because of additional demands from Winterkorn, as he scrutinised every model release in detail.<sup>62</sup>

What had also become apparent over the course of international expansion already is that the coordination between the top Group management and those responsible for South-East Asia, Latin America and the USA could work better.<sup>63</sup>

The ownership structure also has a great influence on decision-making at the top of the corporation. 50.7% of the ordinary shares are held by the Porsche Automobil Holding as represented by the Piëch and Porsche families. They occupy five of the 20 seats on the Supervisory Board. Formally, the power is divided between the 60 or so members of the Piëch/Porsche clan in almost equal measures. In order to raise the influence on the Group, all owners of 'Porsche Automobil-Holding' are contractually obliged to speak with one voice on the Volkswagen Supervisory Board. The fact that the family members are naturally not always in agreement was illustrated by Ferdinand Piëch's attack on Martin Winterkorn with regard to the successor to chair the Supervisory Board. Wolfgang Porsche, speaker of the Porsche family branch, immediately attempted to play down his cousin's words by referring to the fact that he had only expressed his private opinion, the content and facts of which had not been coordinated with the family.

Another 20% is owned by the federal state of Lower Saxony. Lower Saxony is very much interested in job security within the state. The third biggest shareholder with 17% is the state investment company Qatar Holding LLC (QH). The emirate of Qatar supported the highly indebted Porsche holding in the summer of 2009 following the failed takeover of Volkswagen by Porsche. In 2013 QH handed its 10% share in the Porsche holding back to the Porsche and Piëch families. QH now has two people on the Supervisory Board. Hussain Ali Al-Abdullah, member of the Supervisory Board of the state fund, and the former boss of QH and currently minister Ahmed Al Sayed. And finally 12.3% of the ordinary shares are in free float.

#### 4. New challenges for the automotive industry

The far-reaching external changes that the automotive industry is set to go through in the years to come have to lead to significant strategy adaptations. Winterkorn's statement on this: *"Over the coming years our industry will be faced by the biggest upheavals since the existence of the automobile. People's expectations placed on mobility are undergoing fundamental change. The wishes for one's own automobile are increasingly changing. Lifestyles and needs differ fundamentally from region to region. And digitalisation completely redefines the way in which we live and work. The automobile industry cannot close its eyes to these challenges, but has to make the developments into its own and take them into consideration in the long-term strategies."*<sup>64</sup> This means that the owners and the corporate management of Volkswagen have to make ground breaking decisions in order to secure the long-term success of Volkswagen AG.

Winterkorn introduced a new Group initiative "Future Tracks" at the Annual Press and Investors' Conference on 12 March 2015. He explained this as follows: *"The standard programme is no longer sufficient. Our world is experiencing fundamental change. [...] Today's recipes are no guarantee for tomorrow's success. We need a fine sense for the major upheavals in society. For what moves the people, our customers. For what they expect from mobility and a company like ours in the future. And it also takes willingness to scrutinise oneself time and time again and to go new ways. With alternative transmission systems, with digitalisation, with new business fields. [...] That's why we launched "Future Tracks". The vision that drives us is fascinating: In the long term we want to become the global mobility provider, the No. 1 mobility enabler."*<sup>65</sup>

This is directed towards the key future fields of electromobility and the influence of the digital world on the automobile. A data lab has been founded, which deals with "Big Data". IT specialists, computer linguists and statisticians work here on new, intelligent solutions. Another example: Group research is working on a smart parking space forecasting system. This will use swarm data to guide the user directly to a free parking space. The overall objective is that engineers and IT specialists join forces to make the automobile more intelligent, safe and efficient.

Will the "Future Tracks" initiative suffice to make the Volkswagen Group fit for the future? In view of the major upheavals, this question is certainly justified.

Firstly, basic principles of the automotive industry that appeared to be set in stone for decades are changing. A main factor is environmentally-friendly technologies. Under pressure from environmental activists and governmental regulatory efforts, the exhaust emissions from cars have to be significantly dropped. According to EU regulations, by 2020 the fleets of every manufacturer have to attain an emission value averaging 95 g per kilometre. The models from the Volkswagen brand registered in 2013 averaged 134 g/km, from Porsche by 204 g/km even.<sup>66</sup> The emission goals only appear attainable if massive investment go into electromobility. This requires carmakers to establish new fields of competence, such as electric motors, batteries and lightweight construction. BMW, for example, has undertaken massive investment in an electric series of models with its own factory. VW is less radical in this respect and gradually brings existing models in hybrid and electric variants onto the market.

A second main factor for profound change is presented by the innovations in computer and sensor technology that enable self-driving cars. The pioneers in this field are not the car corporations, but

rather technology companies such as Google. This new kind of cars have to communicate with one another and with the infrastructure to work in the best way possible. Can the traditional automobile manufacturers develop these technologies and recruit the necessary research talent? For some customers, assistance and entertainment systems have already taken priority in their purchasing decisions, overtaking classical characteristics such as horsepower or engine size.

However, of even more concern than the technological challenges are the anticipated changes triggered in customer behaviour. Will self-driving cars exert the same purchasing incentive on customers as a manually steered and controlled vehicle? If the only connection to the automobile is in entering the destination, it may be significantly less important and attractive to own a car oneself.<sup>67</sup> Car sharing or mobility providers like Uber are now already making strong popularity gains. Possibly it will soon be sufficient for customers to simply receive a mobility guarantee rather than possessing their own vehicle.

Could manufacturers, such as Volkswagen, lose direct contact with the customer over the longer term and become a B2B supplier of major mobility platforms? Could it be the case that the companies that will earn money from cars in the future will be the software producers like Google and Apple, and Volkswagen will only supply standard kits?

**Multimedia tip:** <https://www.youtube.com/watch?v=5RUY-jjIMes> (Discussion between Martin Winterkorn and Dieter Zetsche on the future of the automobile industry – 35 min – in German).

## 5. How can Volkswagen be led into the future?

With his statement made on 10 April 2015 via Spiegel Online "*I'm keeping my distance from Winterkorn*", Ferdinand Piëch triggered a leadership crisis. Against the backdrop of the excellent financial results, how could the Chairman of the Supervisory Board find fault with the corporation boss? The uncertainties led to a brief drop in corporate value dropped of €1.37 bn. or almost 2%. The loss of image for the corporation with this public withdrawal of confidence is not inconsiderable.

Following a crisis meeting of the six-member Executive Committee of the Supervisory Board of Volkswagen AG held on 16 April 2015 in Salzburg, efforts were made to calm the situation by passing the following statement with just one dissenting vote: "*The Executive Committee of the Supervisory Board of Volkswagen AG states that Prof. Dr. Martin Winterkorn is the best possible Chairman of the Board of Management for Volkswagen. The Executive Committee places great importance on the fact that Prof. Dr. Winterkorn will pursue his role as Chairman of the Board of Management with the same vigor and success as before, and that he has the full support of the Committee in doing so. The Executive Committee will now propose to the Supervisory Board to extend Prof. Dr. Winterkorn's current contract in the Supervisory Board Meeting of February 2016.*"<sup>68</sup> In this Executive Committee sit Ferdinand Piëch (Chairman), Berthold Huber from the IG Metall union (Vice Chairman), Bernd Osterloh as Volkswagen Chairman of the Group Works Council, Stephan Wolf (Osterloh's deputy), Wolfgang Porsche as the speaker of the Porsche family branch, and Stephan Weil, the Minister-President of the Federal State of Lower Saxony. This vote of confidence in Winterkorn is a clear defeat for Ferdinand Piëch, who, along with his wife, then

withdrew from the Supervisory Board. Berthold Huber took over leadership of the Supervisory Board on an interim basis.

Which reasons exactly moved Ferdinand Piëch to publicly withdraw his confidence in Martin Winterkorn will probably never be known to the public. Was it the strategic challenges that he cited in the Spiegel interview? Or was it personal conflicts, as Winterkorn was aiming too publicly at becoming Piëch's successor as Chairman of the Supervisory Board? What is certain is that the leadership of Volkswagen emerged weakened from the conflict. Because the challenges for which a solution has to be found in the medium term are manifold.

- How can the extremely weak position of the corporation in the USA for many years be improved? Martin Winterkorn's ideal of sales distribution is 1/3 in Europe, 1/3 in Asia and 1/3 in America<sup>69</sup> – the real situation in 2014 was that only just under 14% of turnover was generated in America.
- How can the operating margin of the Volkswagen core brand be raised to the target of 6% by 2018 (which means tripling in comparison with 2014)?
- Should the Volkswagen Group develop a model for the low-cost segment, which addresses customers from the middle class in emerging countries and customers from the entry-level segment in Europe and the USA? Role models like Dacia from Renault or the Tata Nano are present on markets that are not served by Volkswagen.
- How can the world leadership be attained in the field of commercial vehicles, a segment that shows almost no similarities with the car industry and is plagued with problems with the MAN brand?
- How can technological leadership be maintained against the backdrop of innovations in electric and autonomous driving? Does the Volkswagen Group have to transform itself from a carmaker to a mobility service provider and invest hugely in IT, car sharing or other forms of mobility, etc.?

Winterkorn himself sees the platform system as the key to solving future tasks: *"With our modular platforms we now already hold the key in our hands. They put us in a position to develop and build our cars much quicker, more flexibly and economically than ever before. We can even use them to offer greater variety - and also profitably realise niche models. And they allow us to bring all transmission types to market in all segments and brands in the shortest possible time."*<sup>70</sup> It is an instrument of power across all brands, but it only works when it is steered by strong group management. Winterkorn sees the corporation well positioned in this regard. *"We have been successful with this well functioning [organisational] structure and will maintain it as it is."*<sup>71</sup> Will Winterkorn be successful in pursuing a course of continuity? Or will the problems that also underlie the conflict with Piëch force him to make radical structural or strategy adjustments? And will he succeed with the Group's patriarchal and centralised management approach practised in responding adequately to the complexity of the Group and the associated risks?

## Questions regarding the case study

### Group strategy

1. On the basis of which strategic concepts (or which basic strategic logic) has corporate management developed the Group since 2002? Does this represent a break with the past?
2. Describe the development of the portfolio configuration of the Volkswagen Group and the interaction of the configuration with the concept or the basic logic.
3. Which synergy types are elements of the Group's *coordination*?

### Alignment of the management organisation

4. Which change in *interaction style* do you recognise between Pischetsrieder's cost focus strategy and Winterkorn's "Strategy 2018"? Which elements of the interaction style remain constant here?
5. How has the corporation's *organisational structure* been adapted to Pischetsrieder's corporate strategy and to Winterkorn's? Would other structures have been better suited?
6. Which important *management systems* help Volkswagen in the development and implementation of corporate strategy? Is Volkswagen – especially at the top management level – a very system-focussed and process-oriented corporation?

### On the future of the corporation

7. Which *risks* does the corporation take – especially on the basis of its size, complexity and high integration – with its corporate strategy? Are these risks only limited to the corporation? What can be undertaken to mitigate these risks?
8. Volkswagen has to find ways of successfully encountering the changes in the automobile industry (see section 4). Which new *initiatives* have to come from the corporation or the business unit level? Is the current corporate structure and corporate governance capable of this in the long term?
9. Volkswagen was once almost completely taken over (by Porsche in 2009). The aim of corporate management is therefore to offer the business units a "parenting advantage" in order to achieve a corporate surplus.

You take on the role of the head of a business unit. Draft a *business plan* for 2015-2018 in which you maximise the value of the standalone business unit. Consider which resources on the corporate level you need to realise the plan. Which restrictions by the corporate level could influence your planning?

The business plans of all business units will then be aggregated.

APPENDIX

I. Figures and tables

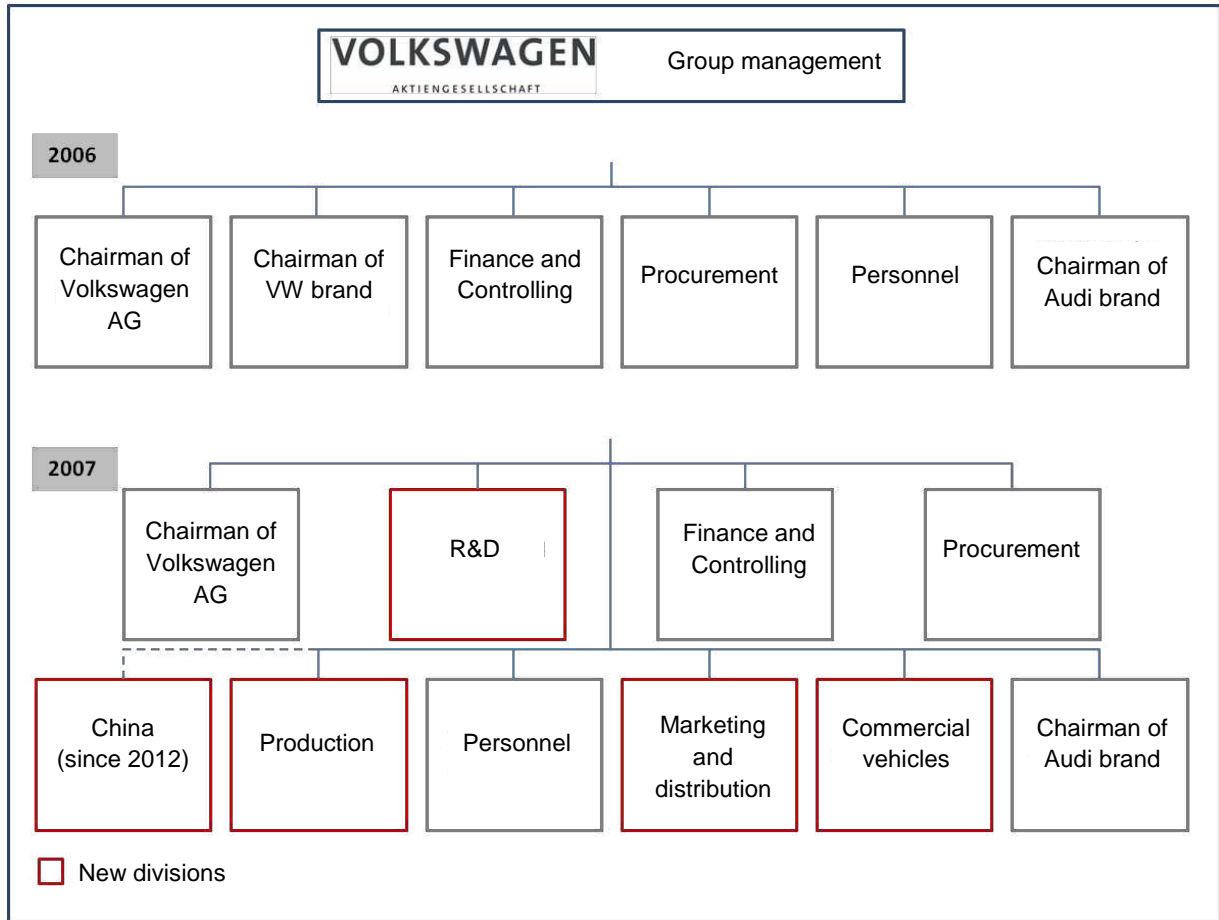


Figure 1: Volkswagen AG corporate management 2006 and 2007 (own representation)

Division/Segment	Automotive Division				Financial Services Division
Business Line	Volkswagen brand group	Audi brand group	Commercial Vehicles	Remaining companies	Financial Services
Product Line/Business Field	VW Passenger Cars Skoda Bentley Bugatti	Audi SEAT Lamborghini		Financing Services	Dealer and customer financing Leasing Insurance Fleet business

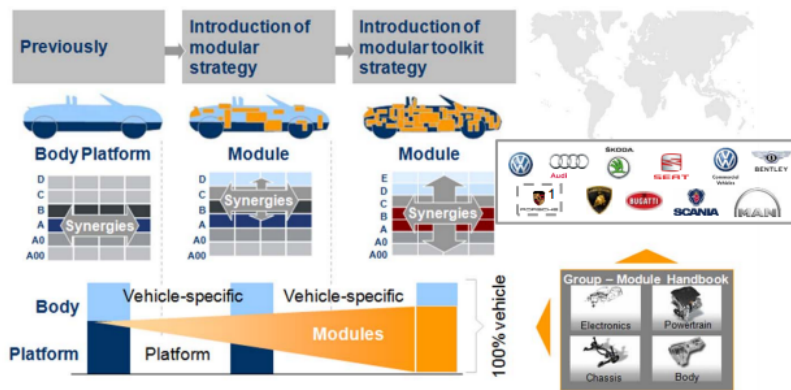
Figure 2: Corporate structure up to 2006/2007 (own representation based on Volkswagen AG, 2007)<sup>72</sup>

Division/Segment	Automotive Division						Financial Services Division	
Brand/Business Field	Volkswagen Passenger Cars	Audi	Škoda	SEAT	Bentley	Volkswagen Commercial Vehicles	Other +	Dealer and customer financing Leasing Insurance Fleet business
							Scania (2008) MAN (2011) Porsche (2012)	

Figure 3: Corporate structure after 2007/2008 (own representation based on Volkswagen AG, 2008)<sup>73</sup>

# Modular Toolkit – Efficiency Gains through Synergies

## TECHNICAL CONCEPT



In the early 1990's Volkswagen introduced the platform strategy, which allowed different models of the same size to share a common platform. Over the years this strategy was further developed and leads to today's modular toolkit strategy. Independent from size and segment, several parts, such as engines, gearboxes or air conditioning, can be used for different vehicles.

This ensures that the synergy effects that exist, both between models in one series and across all series and brands, can be optimized and increased. Through the modularization of the body, vehicles can be produced in different stages for the length, width and wheelbase – an approach that benefits the manufacturing process.

**Modularisation enables standardisation with visible customisation whilst maintaining the individual brand identity.**

<sup>1</sup> 49.9% stake in Porsche Zwischenholding GmbH since December 7, 2009

Figure 4: Benefits and history of the modular platform.<sup>74</sup>

## Strategy 2018

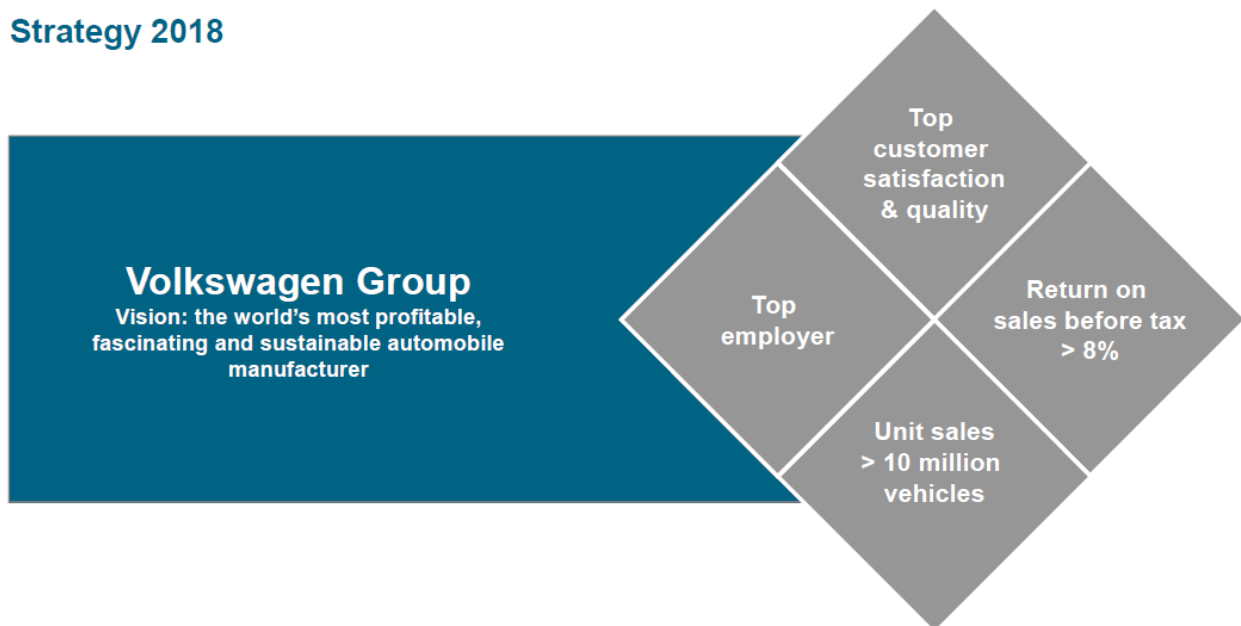


Figure 5: Strategy 2018<sup>75</sup>

## Strategy 2018: Our Achievements so far

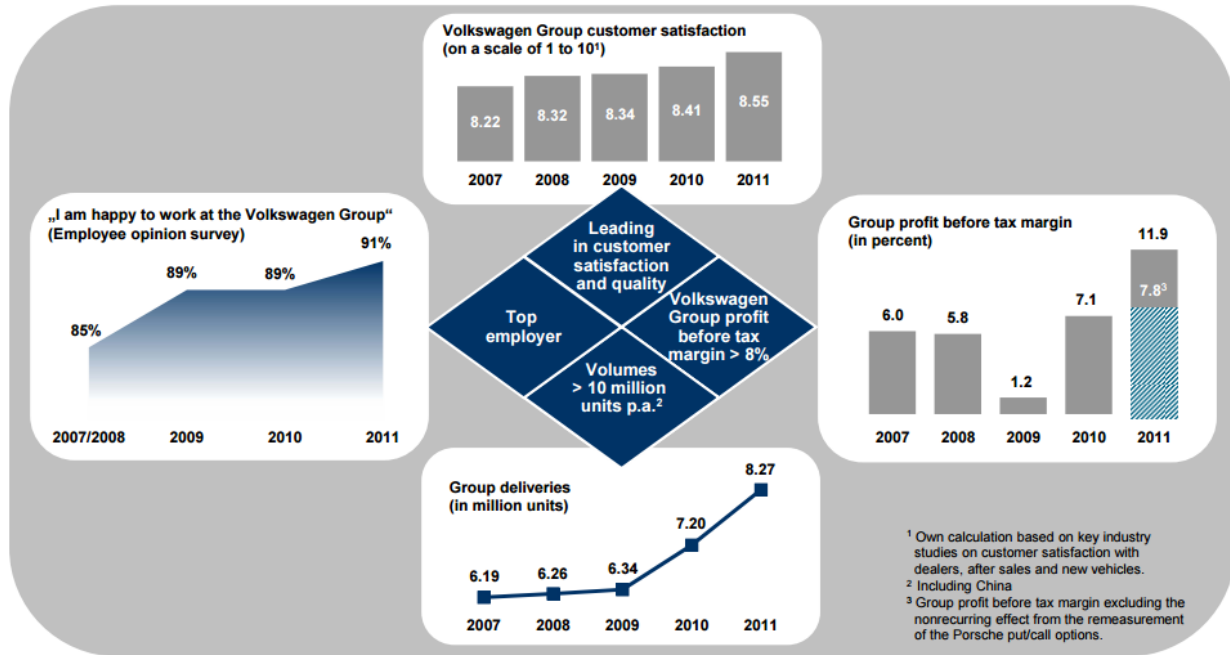


Figure 6: Continuous strategic process for all brands (Winterkorn, 2012, p. 15)



Figure 7: Substantiation of Strategy 2018 (Pötsch, 2011)<sup>76</sup>

Thousand vehicles/€ million	VEHICLE SALES		SALES REVENUE		SALES TO THIRD PARTIES		OPERATING PROFIT	
	2014	2013	2014	2013	2014	2013	2014	2013
Volkswagen Passenger Cars	4,583	4,704	99,764	99,397	68,396	71,426	2,476	2,894
Audi	1,444	1,349	53,787	49,880	36,105	34,560	5,150	5,030
ŠKODA	796	719	11,758	10,324	6,144	5,379	817	522
SEAT	501	459	7,699	6,874	3,412	3,044	-127	-152
Bentley	11	11	1,746	1,679	1,175	1,122	170	168
Porsche <sup>2</sup>	187	155	17,205	14,326	15,727	13,175	2,718	2,579
<b>Volkswagen</b>								
Commercial Vehicles	442	436	9,577	9,370	4,826	4,651	504	448
Scania <sup>2</sup>	80	80	10,381	10,360	10,381	10,360	955	974
MAN <sup>3</sup>	120	140	14,286	15,861	14,092	15,744	384	319
VW China <sup>4</sup>	3,506	3,038	-	-	-	-	-	-
Other	-1,454	-1,364	-45,885	-40,047	22,127	20,227	-2,052 <sup>5</sup>	-2,725 <sup>5</sup>
Volkswagen Financial Services <sup>3</sup>	-	-	22,139	18,983	20,072	17,319	1,702	1,614
<b>Volkswagen Group</b>	<b>10,217</b>	<b>9,728</b>	<b>202,458</b>	<b>197,007</b>	<b>202,458</b>	<b>197,007</b>	<b>12,697</b>	<b>11,671</b>
Automotive Division <sup>6</sup>	10,217	9,728	177,538	175,003	179,864	176,914	10,780	9,807
of which: Passenger Cars Business Area	9,575	9,071	143,601	140,077	151,138	147,107	9,835	9,013
Commercial Vehicles/Power Engineering Business Area	642	657	33,937	34,927	28,726	29,808	945	794
Financial Services Division	-	-	24,920	22,004	22,594	20,093	1,917	1,863

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

2 Including financial services.

3 MAN Finance International GmbH has been reported within Volkswagen Financial Services since its acquisition by Financial Services AG as of January 1, 2014. The prior-year figures have not been adjusted.

4 The sales revenue and operating profit of the joint venture companies in China are not included in the figures for the Group. The Chinese companies are accounted for using the equity method and recorded a proportionate operating profit of €5,182 million (€4,296 million).

5 Mainly intragroup items recognized in profit or loss, in particular from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocation for Scania, Porsche Holding Salzburg, MAN and Porsche.

6 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

Figure 8: Key figures by brand and business unit (Volkswagen AG Annual Report, 2015, p. 23)

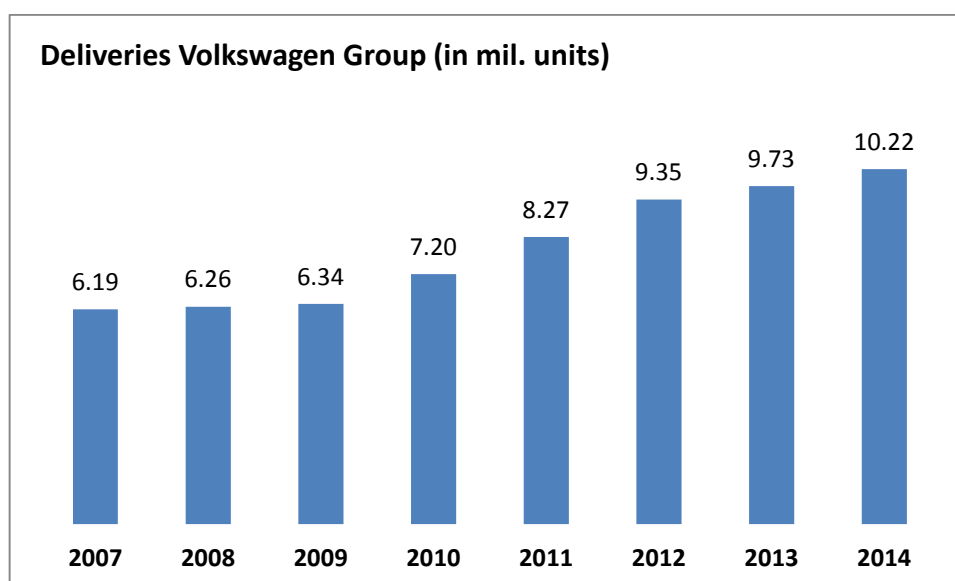


Figure 9: Deliveries from Volkswagen Group in million units (own representation based on the annual reports)

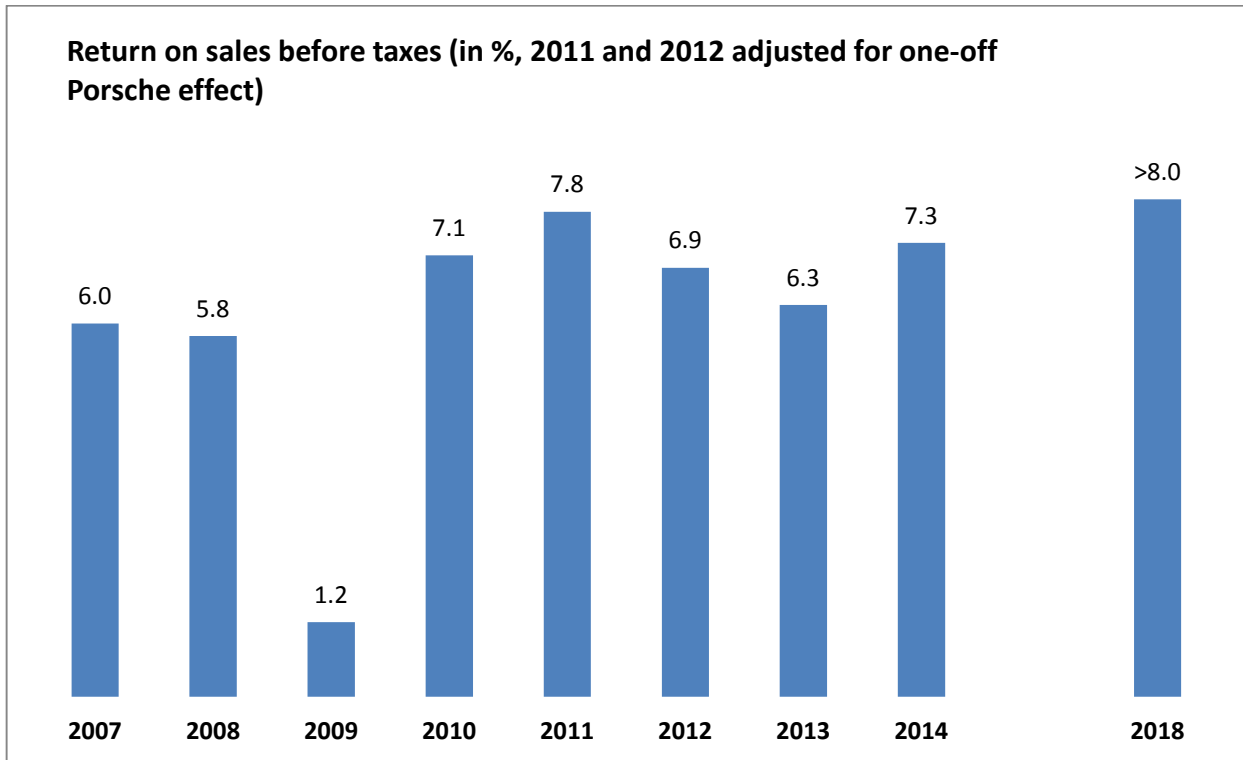


Figure 10: Group return on sales before taxes (own representation based on Winterkorn, 2012 and annual reports)<sup>77</sup>

## Bibliography

- <sup>1</sup> VW AG. (2008). 2007 Annual Report. Wolfsburg: Author., p. 10.
- <sup>2</sup> Freitag, M. (2014). *Auf die Harte Tour*. [The hard way] Manager Magazin (8), p. 32.
- <sup>3</sup> Schneider, Mark C., *Der Automacher*, [The car-maker] in: Handelsblatt (2012), No. 169, p. 53.
- <sup>4</sup> On this paragraph see : [http://de.wikipedia.org/wiki/Volkswagen\\_AG](http://de.wikipedia.org/wiki/Volkswagen_AG).
- <sup>5</sup> Wimmer, E., Schneider, M. C., & Blum, P. (2010). Antrieb für die Zukunft [Drive for the future.] Wie VW und Toyota um die Pole Position ringen. [How VW and Toyota struggle for pole position.] Stuttgart: Schäffer-Poeschel Verlag, p. 18-19.
- <sup>6</sup> The Economist (2012, July 7th) VW conquers the world. Downloaded from <http://www.economist.com/node/21558269>.
- <sup>7</sup> Dörner, A. & Schneider, Mark C. (2011, 24 May). VW und die offene Rechnung in Amerika. [VW and the score to be settled in America.] Downloaded from <http://www.handelsblatt.com/unternehmen/industrie/neues-werk-in-chattanooga-vw-und-die-offene-rechnung-in-amerika/4213220.html>.
- <sup>8</sup> Freitag, M. (2014). *Auf die Harte Tour*. [The hard way] Manager Magazin (8), p. 32f.
- <sup>9</sup> The Economist (2012, July 7th) VW conquers the world. Downloaded from <http://www.economist.com/node/21558269>.
- <sup>10</sup> Freitag, M. (2014). *Auf die Harte Tour*. [The hard way] Manager Magazin (8), p. 34.
- <sup>11</sup> VW AG. (2003). 2002 Annual Report. Wolfsburg: Author. p. 9-10.
- <sup>12</sup> Fortune. (2003). Declining share, falling profits, too many brands - can VW's new boss get the company back on track? Vol. 148 Issue 8, p145-150.
- <sup>13</sup> VW AG. (2004). 2003 Annual Report. Wolfsburg: Author. p. 12-13.
- <sup>14</sup> Spiegel Online Wirtschaft. [economy] (10 July 2004). Autoindustrie: VW-Konzern steuert in der Krise. [Car industry: VW Group heading for crisis] Downloaded 20 April 2013 from <http://www.spiegel.de/spiegel/vorab/a-308136.html>.
- <sup>15</sup> VW AG. (2005). 2004 Annual Report. Wolfsburg: Author. p. 10-11.
- <sup>16</sup> Die Zeit Online. (05 July 2005). VW-Schmiergeldaffäre Käferstündchen bei VW. [VW bribery affair. Quick encounter at VW] Downloaded on 4 May 2013 from <http://pdf.zeit.de/2005/27/VW-Skandal.pdf>.
- <sup>17</sup> VW AG. (2004). 2003 Annual Report. Wolfsburg: Author. p. 13.
- <sup>18</sup> VW AG. (2004). 2003 Annual Report. Wolfsburg: Author. p. 14.
- <sup>19</sup> VW AG. (2006). 2005 Annual Report. Wolfsburg: Author. p. 14-17; 20-21; VW AG. (2007). 2006 Annual Report. Wolfsburg: Author. p. 112.
- <sup>20</sup> Handelsblatt (19.4.2007). Piech: Pischetsrieder war der Falsche. [Pischetsrieder was the wrong one.] Downloaded from <http://www.handelsblatt.com/unternehmen/industrie/vw-hauptversammlung-piech-pischetsrieder-war-der-falsche/2797654.html>
- <sup>21</sup> VW AG. (2007). 2006 Annual Report. Wolfsburg: Author. p. 115.
- <sup>22</sup> VW AG. (2007). 2006 Annual Report. Wolfsburg: Author. p. 9.
- <sup>23</sup> VW AG. (2007). 2006 Annual Report. Wolfsburg: Author. p. 40.
- <sup>24</sup> VW AG. (2008). 2007 Annual Report. Wolfsburg: Author. p. 78.
- <sup>25</sup> VW AG. (2007). 2006 Annual Report. Wolfsburg: Author. p. 23.
- <sup>26</sup> VW AG. (2007). 2006 Annual Report. Wolfsburg: Author. p. 23.
- <sup>27</sup> VW AG. (2007). 2006 Annual Report. Wolfsburg: Author. p. 18.
- <sup>28</sup> VW AG. (2008). 2007 Annual Report. Wolfsburg: Author. p. 14.
- <sup>29</sup> VW AG. (2008). 2007 Annual Report. Wolfsburg: Author. p. 11; 14-17.
- <sup>30</sup> VW AG. (2008). 2007 Annual Report. Wolfsburg: Author. p. 17.
- <sup>31</sup> Wimmer, E., Schneider, M. C., & Blum, P. (2010). Antrieb für die Zukunft [Drive for the future.] Wie VW und Toyota um die Pole Position ringen. [How VW and Toyota struggle for pole position.] Stuttgart: Schäffer-Poeschel Verlag. p. 59-62; VW AG. (2013). 2012 Annual Report. Wolfsburg: Author. p. 208.
- <sup>32</sup> Schneider, Mark C., *Der Automacher*, [The carmaker] in: Handelsblatt (2012), No. 169, p. 523.
- <sup>33</sup> Hamann G. and Lapartner, Dietmar H. "Mir geht's gut" [I'm well]. in: Die Zeit (2013), No. 10, p. 24.
- <sup>34</sup> Louven, S., Schneider, Mark C. & Steingart, G., *Der Automacher* [The carmaker], in: Handelsblatt (2012), No. 169, p. 48.
- <sup>35</sup> Becker, H. (2010). Darwins Gesetz in der Automobilindustrie. Warum deutsche Hersteller zu den Gewinnern zählen. [Darwin's law in the automobile industry. Why German manufacturers count among the winners]. Berlin: Springer-Verlag. p. 17f.
- <sup>36</sup> VW AG. (2010). 2009 Annual Report. Wolfsburg: Author. p. 198-199.
- <sup>37</sup> VW AG. (2010). 2009 Annual Report. Wolfsburg: Autor.; Wimmer, E., Schneider, M. C., & Blum, P. (2010). Antrieb für die Zukunft [Drive for the future.] Wie VW und Toyota um die Pole Position ringen. [How VW and Toyota struggle for pole position.] Stuttgart: Schäffer-Poeschel Verlag. p. 17.
- <sup>38</sup> VW AG. (2013). 2012 Annual Report. Wolfsburg: Author. p. 133.
- <sup>39</sup> VW AG. (2013). 2012 Annual Report. Wolfsburg: Author. p. 126, 128.
- <sup>40</sup> VW AG. (2013). 2009 Annual Report. Wolfsburg: Author. p. 154.

- 
- <sup>41</sup> Barber, T. (10.1.2013). Crisis has accelerated VW's domination. Financial Times. Downloaded on 16.6.2015 from <http://www.ft.com/intl/cms/s/0/10ede0a8-5a58-11e2-a02e-00144feab49a.html#axzz3dEKO5Cf1>
- Spear, S., & Bowen, H. K. (September/ October 1999). Decoding the DNA of the Toyota Production System. Harvard Business Review (77), p. 97ff.
- <sup>43</sup> VW AG. (2008). 2007 Annual Report. Wolfsburg: Author. p. 157; 2009, p. 154-155; Wimmer, E., Schneider, M. C., & Blum, P. (2010). Antrieb für die Zukunft [Drive for the future.] Wie VW und Toyota um die Pole Position ringen. [How VW and Toyota struggle for pole position.] Stuttgart: Schäffer-Poeschel Verlag. p. 24-25.
- <sup>44</sup> Freitag, M., & Student, D. (22 October 2010). Zwei tolle Käfer. [Two great beetles] Wie Martin Winterkorn aus VW einen Weltmarktführer formen will. [How Martin Winterkorn wants to shape VW into a world market leader.] Manager Magazin, p. 30.
- <sup>45</sup> VW AG. (2012). 2011 Annual Report. Wolfsburg: Author. p. 202.
- <sup>46</sup> VW AG. (2013). 2012 Annual Report. Wolfsburg: Author.
- <sup>47</sup> VW AG. (2010). 2009 Annual Report. Wolfsburg: Author. p. 162-163; VW AG. (2011). 2009 Annual Report. Wolfsburg: Author. p. 184; VW AG. (2012). 2009 Annual Report. Wolfsburg: Author. p. 195.
- <sup>48</sup> VW AG. (2013). 2009 Annual Report. Wolfsburg: Author. p. 156.
- <sup>49</sup> Mayer, B. (June 2012). Interview with Dr. Michael Macht, Member of the Board for Production, Volkswagen AG. Automobile Production. p. 16.
- <sup>50</sup> Mayer, B., & Kilimann, S. (June 2012). Eins werden. Automobil Produktion [Becoming one. Automobile Production] p. 13.
- <sup>51</sup> [http://www.volkswagenag.com/content/vwcorp/info\\_center/de/news/2015/05/Truck.html](http://www.volkswagenag.com/content/vwcorp/info_center/de/news/2015/05/Truck.html).
- <sup>52</sup> See Neue Zürcher Zeitung 12.10.15, p. 19.
- <sup>53</sup> Schneider, Mark C., *Der Automacher*, [The car-maker] in: Handelsblatt (2012), No. 169, p. 52.
- <sup>54</sup> Manager Magazin online (2011, 10 October). Ferdinand Piëch zum wichtigsten Manager seit 1971 gewählt. [Ferdinand Piëch voted the most important manager since 1971] Downloaded from <http://www.manager-magazin.de/unternehmen/artikel/a-792662.html>.
- <sup>55</sup> VW AG. (2012). 2011 Annual Report. Wolfsburg: Author.
- <sup>56</sup> Wimmer, E Schneider, M. C., & Blum, P. (2010). Antrieb für die Zukunft [Drive for the future.] Wie VW und Toyota um die Pole Position ringen. [How VW and Toyota struggle for pole position.] Stuttgart: Schäffer-Poeschel Verlag. p. 103.
- <sup>57</sup> VW AG. (2007). 2006 Annual Report. Wolfsburg: Author. p. 6.
- <sup>58</sup> Rumpelt, T. (March 2007). Im Fokus: Volkswagen. Neue Besen. Automobil-Produktion. [New broom. Automobile Production] p. 14.
- <sup>59</sup> Schneider, Mark C., *Der Automacher*, [The car-maker] in: Handelsblatt (2012), No. 169, p. 55.
- <sup>60</sup> Schneider, Mark C., *Der Automacher*, [The car-maker] in: Handelsblatt (2012), No. 169, p. 52.
- <sup>61</sup> Schneider, Mark C., *Der Automacher*, [The car-maker] in: Handelsblatt (2012), No. 169, p. 52.
- <sup>62</sup> Freitag, M. (2014). *Auf die Harte Tour*. [The hard way] Manager Magazin (8), p. 34.
- <sup>63</sup> Freitag, M. (2014). *Auf die Harte Tour*. [The hard way] Manager Magazin (8), p. 36.
- <sup>64</sup> [http://www.volkswagenag.com/content/vwcorp/info\\_center/de/news/2014/03/Future\\_Tracks.html](http://www.volkswagenag.com/content/vwcorp/info_center/de/news/2014/03/Future_Tracks.html)
- <sup>65</sup> [http://www.volkswagenag.com/content/vwcorp/info\\_center/de/talks\\_and\\_presentations/2015/03/.pdf](http://www.volkswagenag.com/content/vwcorp/info_center/de/talks_and_presentations/2015/03/.pdf)
- <sup>66</sup> CO2-Limit: Pkw-Flotten auf der Zielgerade [Car fleets on the finishing straight] (21.1.2014). Downloaded on 15.6.2015 from <http://www.auto.de/magazin/co2-limit-pkw-flotten-auf-der-zielgeraden/>
- <sup>67</sup> Gao, P., & Hensley, R. (2014). A road map to the future for the auto industry. McKinsey Quarterly, 4.
- <sup>68</sup> [http://www.volkswagenag.com/content/vwcorp/info\\_center/de/news/2015/04/AR\\_Stellungnahme.html](http://www.volkswagenag.com/content/vwcorp/info_center/de/news/2015/04/AR_Stellungnahme.html)
- <sup>69</sup> CNBC Interview with Martin Winterkorn (12.3.2015). Downloaded on 16.6.2015 from <http://www.cnbc.com/id/102497075>
- <sup>70</sup> [http://www.volkswagenag.com/content/vwcorp/info\\_center/de/news/2014/03/Future\\_Tracks.html](http://www.volkswagenag.com/content/vwcorp/info_center/de/news/2014/03/Future_Tracks.html)
- <sup>71</sup> Freitag, M., & Noé, M. (16.4.2014). Volkswagen stellt Ende 2014 neue Strategie vor. [Volkswagen presents its new strategy at the end of 2014.] Manager Magazin.
- <sup>72</sup> VW AG. (2007). 2006 Annual Report. Wolfsburg: Author. p. 40.
- <sup>73</sup> VW AG. (2008). 2007 Annual Report. Wolfsburg: Author. p. 78.
- <sup>74</sup> Winterkorn, P. D. (8. October 2012). Volkswagen Golf VII – Launch of a new era. Downloaded on 9 November 2015 from [http://www.volkswagenag.com/content/vwcorp/content/en/investor\\_relations/Warum\\_Volkswagen/MQB.bin.html/downloadfilelist/downloadfile/downloadfile\\_0/file/2012-10-08+Golf+VII\\_Presentation\\_Website.pdf](http://www.volkswagenag.com/content/vwcorp/content/en/investor_relations/Warum_Volkswagen/MQB.bin.html/downloadfilelist/downloadfile/downloadfile_0/file/2012-10-08+Golf+VII_Presentation_Website.pdf)
- <sup>75</sup> Winterkorn, M. (23. Mai 2012). Strategie 2018 - Qualitative und quantitative Werttreiber für einen globalen Automobilkonzern. [Strategy 2018 - Qualitative and quantitative value drivers for a global automobile corporation] Downloaded on 30 April 2013 from [http://www.bwl.wi.tum.de/contento/cms/upload/pdf/lehre/download/2012s/Vorlesung\\_SWM/Vorlesungsunterlagen\\_3\\_Strategie.pdf](http://www.bwl.wi.tum.de/contento/cms/upload/pdf/lehre/download/2012s/Vorlesung_SWM/Vorlesungsunterlagen_3_Strategie.pdf). p. 16.
- <sup>76</sup> Pötsch, H. D. (11. März 2011). Volkswagen – On the Road of Success. Downloaded on 30 April 2013 from [http://www.volkswagenag.com/content/vwcorp/info\\_center/de/talks\\_and\\_presentations/2011/03/Presentation\\_London\\_Poetsch.bin.html/binarystorageitem/file/Presentation+Londonn+11-03-2011.pdf](http://www.volkswagenag.com/content/vwcorp/info_center/de/talks_and_presentations/2011/03/Presentation_London_Poetsch.bin.html/binarystorageitem/file/Presentation+Londonn+11-03-2011.pdf). p. 15.
- <sup>77</sup> Winterkorn, P. D. (23. Mai 2012). Strategie 2018 - Qualitative und quantitative Werttreiber für einen globalen Automobilkonzern. [Strategy 2018 - Qualitative and quantitative value drivers for a global automobile corporation]

