How effectively is Volkswagen meeting its Strategy 2018 goals in the North American market?

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Introduction

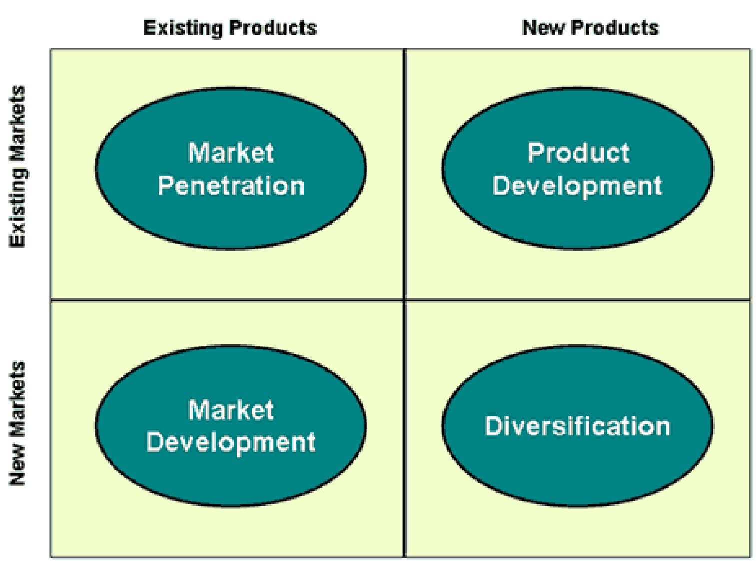
If there is one automobile that is recognized all around the U.S., it would be the Volkswagen Beetle. Young and old alike know this car's unique design. The Beetle was first introduced to the U.S. market at a time when most other U.S. automakers were focusing on streamlined designs. The quirky, offbeat styling of the Beetle captures the innovative nature of Volkswagen as a whole. The unique Beetle was the first example of the power of German engineering in the North American car market.

Strategy 2018 is Volkswagen's plan for growth by 2018 the goal of which is to become the "most successful and fascinating automaker by 2018" (Factbook 43). One of the key points of this plan is expanding and recovering the North American market. Volkswagen has undertaken several steps to increase their market share. The purpose of this essay is to determine how effective these changes are in reaching their overall goal.

It is important to note that the Volkswagen Group actually owns ten different brands of automobile, including Audi, Bugatti and the core brand Volkswagen Passenger Vehicles. The different brands cover a range of perceptions, be it a luxury brand or a value brand. This diverse product portfolio helps protect Volkswagen from the risk of decline in any particular sector. However, for the purpose of this essay, Volkswagen will be referring to the Volkswagen Passenger Vehicle Brand. I will be examining how this particular brand's success in the U.S. contributes to the overall company's success. Volkswagen's organizational structure allows me to isolate the individual brands as each “operates as an independent entity in the market to better satisfy the needs of the different segments” (Factbook 9).

Marketing Strategy Changes

The most evident ways that Volkswagen has shifted their approach to the North American market are in their product line and their advertising style. Volkswagen operates under the simple slogan “Das Auto” or The Automobile. The simplicity of this statement shows Volkswagen’s dedication to the classic idea of the car and gives the company elegance. However, there were downsides to his perception. As Sheldon, the leader of Deutsch advertising, said “The brand [Volkswagen] was squarely positioned for a 27-year old guy with gelled hair, somewhat to the exclusion of anybody slightly younger or older” (Pathak). Unfortunately, potential customers fitting those criteria are relatively scarce. Volkswagen obviously needed to appeal to a wider range of customers if they were going to increase their market share as planned. This means that Volkswagen’s main marketing focus was market penetration.



(Diagram work of Tutor2U)

This is a relatively low-risk strategy as the company is working with existing markets and existing products. Currently, Volkswagen's share in the U.S. is only at around 3.1%, which is an increase from 2.9%. (Rauwald).

Based on U.S. Census data for 2010, the greatest percent of the population is between 45 and 49 years old. There are similar population high points at 25 to 29 years and 50 to 54 years. In order to appeal to the majority, Volkswagen needed to offer cars and promote them in a manner that would isolate other segments of the population. Thus, enters their revamped product line with greatest focus on the 2011 Volkswagen Jetta. Some cite this vehicle as the beginning of the modern "value-car movement" as it was priced "slightly less than $16,000" (Healey 2). According to Volkswagen data in their Factbook, the Jetta was the top seller for the company in the North American market for 2011. Obviously, something clicked with the Jetta and the American population. The reasonable price combined with its adherence to Volkswagen's principles of "innovation, enduring value, and responsibility" are probably what made it so endearing to the public. Previously in the U.S., Volkswagen had designed cars to compete with the more luxury brands. The release of the 2011 Jetta marked the continuing efforts of Volkswagen to alter perception of the company. The efforts are looking promising as sales reported "the first quarter were 62% better than a year ago "(Healey 2).

By consulting a position map, Volkswagen was occupying the Premium brand position, or a brand with high prices and high quality. By cutting prices, they have sought to reposition themselves as a bargain brand. Naturally, the price-cut did lessen the quality of certain materials and technologies. However, the overall perception of Volkswagen based on its past products enables it to be perceived still as high quality. This shift in product lines helped to widen the audience of potential buyers, thus helping Volkswagen to increase sales in the U.S. However, their focus has also been on innovation. For 2011, the company also introduced a newly redesigned Beetle and the Golf Cabriolet (Factbook 11). To continue improving their sales in the U.S. though, Volkswagen needs to develop something new. The Beetle first gained Volkswagen a foothold in the U.S. because of its uniqueness. The products that Volkswagen offers today, like the Jetta and the Tiguan, are well built, but they lack a unique selling point. Nothing truly distinguishes them from other cars on the market. Although Volkswagen is making progress towards its Strategy 2018 goals, I believe that a riskier strategy like Product Development is in order, rather than just focusing on market penetration.

Promotion is also playing a large role in Volkswagen's growth in the U.S. After pairing with Deutsch LA, the company has been met with success in advertising. Their Super Bowl commercial for the Passat was the "best-liked ad and has over 25 million views on YouTube" (Pathak). They continued this success by focusing their advertisements on people and relationships rather than just the automobiles. One of the most effective television commercials on air today is the Volkswagen Jetta commercial. In this advertisement, the viewer follows a boy from childhood to fatherhood as he purchases different modes of transportation. The question the boy asks is always "Is it fast?" until the last scene where he is shown purchasing a Jetta with his baby. At this time, he asks only "Is it safe?" The commercial goes on to highlight the Volkswagen Jetta's selection as an IIHS Top Safety Pick of 2012 (*The Fast*). The commercial, like the Darth Vader Super Bowl commercial, is meant to "tap into humanity rather than sheet metal" (Pathak). Volkswagen is promoting and reminding viewers of the purpose of cars: to get us safely from point A to point B. The focus on safety, family, and the emotional appeal of these commercials targets the middle class American family. Just as in the commercial, parents want cars that are safe and dependable. Volkswagen is making these cars. The buzz generated over these creative commercials is exactly what is needed to propel Volkswagen to their Strategy 2018 goals.

Analysis of Changes

Ratio Analysis	2011	2010
Net Profit Margin (for VW Group)	**7.1%**	**5.6%**
Net Profit Margin (for VW Brand)	**4%**	**2.7%**
Return on Capital Employed (for VW Group)	**7.5%**	**4.5%**
% of Volkswagen Group Profit that VW Brand Contributes	**59.4%**	**63.3%**
% of Sales that VW Brand contributes to Volkswagen Group	**53.2%**	**53.1%**

Data from Volkswagen AG Annual Report

The financial data from the Volkswagen brand does not show tremendous improvement from 2010 to 2011 in any areas. The Net Profit margin is low, even for the auto industry, at 4%. Although, it is important to note that this is up from 2.7% in 2010. However, these are weak statistics, especially compared with the overall performance of the Volkswagen Group. Their NPM is not stellar either, but it exceeds the brand. However, most alarming is the fact that the Volkswagen brand makes the majority of sales for the company, the percentage of which has remained relatively constant from 2010 to 2011. Unfortunately, the profit that the Volkswagen brand is contributing has fallen 4%. Based on this data, Volkswagen needs to continue to re-evaluate their strategy in the North American market. The company is increasing its market share, as mentioned earlier, but that increase appears to be coming at a cost to profit.

Conclusion

Many of Volkswagen's changes in marketing seem to be geared towards attracting the greatest segment of the U.S. market. As discussed, the new product lines do a good job of attracting a more diverse group of customers. The concept of the value-car is popular in today's economy when consumers do not want to sacrifice features to cut costs. Everyone wants "lower prices than you'd expect, but more features than you'd think" (Healey 1).The Volkswagen Jetta does a particularly nice job of balancing these two opposites. However, in my mind, the most powerful part of Volkswagen's marketing strategy is their new promotional focus. Although the financial data does not show Volkswagen's dominance in the market yet, they can get there through a few changes. Volkswagen should continue to make their products safer and more affordable. They should also continue to focus their promotional activities on the relationship between the car and the family. Finally, Volkswagen needs to work on developing a product that will serve as the second coming of the Beetle. After looking through their product portfolio, it is clear that Volkswagen needs something to freshen up their lineup. Then, they will be more on target for reaching their Strategy 2018 goals for the North American Market.

Word Count: 1489

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Appendix

Supporting Document 1:U.S. Census Findings on Gender and Age of U.S. Population

Table 1. Population by Age and Sex: 2010
(Numbers in thousands. Civilian noninstitutionalized population[1])

Age	Both sexes		Male		Female	
	Number	Percent	Number	Percent	Number	Percent
All ages	304,280	100.0	149,485	100.0	154,795	100.0
Under 5 years	21,434	7.0	10,955	7.3	10,479	6.8
5 to 9 years	20,785	6.8	10,624	7.1	10,162	6.6
10 to 14 years	19,893	6.5	10,178	6.8	9,714	6.3
15 to 19 years	21,086	6.9	10,719	7.2	10,367	6.7
20 to 24 years	21,154	7.0	10,684	7.1	10,470	6.8
25 to 29 years	21,453	7.1	10,928	7.3	10,525	6.8
30 to 34 years	19,632	6.5	9,761	6.5	9,871	6.4
35 to 39 years	19,888	6.5	9,902	6.6	9,986	6.5
40 to 44 years	20,559	6.8	10,172	6.8	10,387	6.7
45 to 49 years	22,527	7.4	11,092	7.4	11,435	7.4
50 to 54 years	21,860	7.2	10,692	7.2	11,169	7.2
55 to 59 years	19,172	6.3	9,318	6.2	9,854	6.4
60 to 64 years	16,223	5.3	7,667	5.1	8,556	5.5
65 to 69 years	12,020	4.0	5,672	3.8	6,349	4.1
70 to 74 years	8,936	2.9	4,063	2.7	4,873	3.1
75 to 79 years	7,181	2.4	3,020	2.0	4,161	2.7
80 to 84 years	5,783	1.9	2,408	1.6	3,375	2.2
85 years and over	4,693	1.5	1,631	1.1	3,062	2.0
Under 15 years	62,112	20.4	31,757	21.2	30,355	19.6
15 to 17 years	12,928	4.2	6,566	4.4	6,361	4.1
18 to 20 years	12,542	4.1	6,365	4.3	6,177	4.0
21 to 44 years	98,303	32.3	49,236	32.9	49,068	31.7
45 to 64 years	79,782	26.2	38,768	25.9	41,014	26.5
65 years and over	38,613	12.7	16,793	11.2	21,820	14.1
Median age	36.7	(X)	35.5	(X)	37.9	(X)

(X) Not applicable.

[1]Plus armed forces living off post or with their families on post.

SOURCE: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2010.

Supporting Document 2

How Deutsch LA Created 'The Force' for Volkswagen

Shareen Pathak

The mega popularity of the Volkswagen Darth Vader ad is based on a story about humanity and life's obstacles, one designed to triple Volkswagen sales in the U.S. by 2018. Created by Interpublic Group's Deutsch Inc.'s Los Angeles office, VW's "mini-Darth" spot features a pint-sized Darth Vader trying unsuccessfully to use "The Force" on various household objects until he encounters a new 2011 Passat in the driveway, which finally responds to his efforts when its engine starts. His dad, of course, has used the key fob to start the car remotely.

The Super Bowl XLV commercial for the Passat, a mid-sized four-door sedan, has been ranked by Nielsen as Super Bowl's best-liked ad and had over 25 million views on YouTube at the time of publishing.

"This is the truly defining moment for me and [the] Deutsch team," said Mike Sheldon, CEO of Deutsch LA, the West-Coast arm of Deutsch Inc.

For Sheldon and the Deutsch LA team, the mission was clear when it came to Volkswagen: sales.

"There are some agencies that like to make ads and those that like to make sales," said Sheldon. "We're the latter."

Volkswagen's goal is to triple sales in the U.S. to 800,000 cars by 2018.

"The brand was squarely positioned for a 27-year-old guy with gelled hair, somewhat to the exclusion of anybody slightly younger or older," said Sheldon. "Our job was to widen that audience."

Enter mini-Darth Vader and his struggle against a doll, a washing machine and a dog.

"Car ads cannot be about the car," said Sheldon. "The minute they [the viewer] hear 'independent rear suspension' they want to poke their eyes out."

The plan was to tap into humanity rather than sheet metal.

"We've got every element, from John Williams music to a cute six year old," he said. "The Passat is a family car, it's new this year and we have to reach those people."

Landing the Volkswagen account was a big score for Deutsch LA, which has handled the account for less than two years.

In a closely watched review in October 2009, Deutsch LA, which had recently lost the General Motors Saturn account, won Volkswagen over Omnicom's Goodby Silverstein & Partners, a big event for what was still a small company.

"Oil runs through my veins," said Sheldon, who grew up in a Detroit suburb as the son of a GM exec. "[The client] knew we knew the car business, because we care about dealers and we've had experience."

Aside from winning a big, new account, the move was celebrated at Deutsch LA because of Volkswagen's storied advertising history.

"Modern advertising was practically invented by Bill Bernbach on the Volkswagen account," said Sheldon, referring to the legendary creative responsible for some of VW's biggest ad coups like the "Think Small" and "Lemon" while at DDB, the worldwide ad agency.
"We knew we had an extremely high bar to hit, we feel that everyday," said Sheldon.

Sheldon, 51, started Deutsch LA 14 years ago, following an eight year stint at Chiat/Day, where he led many auto accounts like Nissan and Infiniti. Deutsch LA currently employs 420 people

As for hiring plans, Sheldon is tight-lipped. "This year, our goal is to put the work front and center, but we will definitely grow. We're going to continue the great work, follow up to this by trying to talk about humanity in a hip, simple and honest way," he said. "We want people with big brains, big hearts, thick skin, who are two degrees off-center."

Supporting Document 3: USA Today Article

'Value cars' replace bare-bones bottom-feeders
By James R. Healey and Chris Woodyard

NEW YORK — It would be easy to overlook amid the shiny cars, fashion models, exotic lighting and other hoopla that attend an auto show, but one of the most significant trends at the show here is the emergence of "value cars."

It's a nascent segment, to be sure. Underpopulated, too, but growing less so.

Edging into a new space in the auto market, aiming at a sweet spot as much hoped-for as yet realized, are a handful of cars that have in common lower prices than you expect but more features than you'd think.

Value cars usually are small, but not always the absolute tiniest or cheapest. They surely aren't the premium small cars — such as Mini Cooper, Volkswagen Beetle, Honda Civic — that car companies favor for their higher potential profits. Makers of those premium lines argue those cars provide lots of "value for the dollar," but that often means paying top dollar in their class.

The new value cars are defined by being both low in price and well-furnished relative to rivals — and also when contrasted with the cars they replace in a manufacturer's lineup.

The poster car for the new category is the 2012 Nissan Versa unveiled here for a starting price of $10,990 (plus what Nissan decides to charge for destination when the car goes on sale this summer). The new Versa is about $1,000 more than the lowest-price Versa it replaces, but this new one has standard air conditioning, electric power steering and a stylish design, all missing from its forebear, as well as a radio and stability control.

And the $13,000 2012 Hyundai Accent, introduced here, likewise is more stylish, is rated a desirable 40 mpg on the highway and is a pioneer among small cars for its advanced gasoline direct-injection engine technology that boosts power, cuts emissions and improves mileage. Until now that's been limited to bigger, pricier machines.

Accent is also roomier than presumed for its trim outside dimensions, and covered by Hyundai's guaranteed trade-in-price program, launched at the same time as the car — emphasizing that not all the value-added items need to be hardware.

Kia, a corporate affiliate of Hyundai, showed its Rio here, a version of the Accent with direct injection. Rio standard features include an AM/FM/CD/MP3/stereo with three months of free satellite radio service — a deal usually found among bigger, more expensive models.

Rio also plans to offer idle-stop technology. The engine stops running at stoplights to save fuel, then restarts instantly when the driver releases the brake pedal. Though common on conventional engines overseas, idle-stop has been in the U.S. only as part of gas-electric hybrid powertrains.

"Normal small cars have grown up," leaving room in the size and price spectra for trimmer, less-expensive models, notes David Champion, senior director of auto testing at *Consumer Reports* magazine. "There is a market for a small car about the size of a (Honda) Civic or (Toyota) Corolla of a few years ago, but not a bare-bones stripper that makes you feel impoverished every time you get into the car."

Starting a trend

You could date the modern value-car movement to the 2011 Volkswagen Jetta, launched last October at a starting price of slightly less than $16,000 (plus shipping).

It was VW's first new model designed for its battle to triple U.S. sales, and the redone Jetta was enlarged, priced some $1,700 lower and given more standard features, such as remote-control locks, defrosting outside mirrors, generous rear legroom and trunk space for a small car, and VW's free maintenance.

Critics — including *Consumer Reports* — vilified it, citing lower-class trim and older brake and suspension technology on low-price versions, among other objections. But buyers, ultimate judges of success, seem happy with the value. Jetta's sales the first quarter were 62% better than a year ago, according to sales tracker Autodata.

Other automakers hope they're as on-target in showrooms as Jetta seems to be.

To automakers, value cars mean cars that might be nice enough to bring owners back for another, instead of shunning the brand because it reminds them of their barely livable cheap cars.

Chevrolet's 2012 Sonic small car — not yet priced but a possible value car if it undercuts rival Ford Fiesta's $14,000 base — is "intended to be the entry point" into the Chevrolet brand, and leave customers satisfied enough to stay with GM for life, says Margaret Brooks, Chevy's marketing director for small cars.

Chevy says Sonic "will feature unexpected amenities and safety for the class, and will be a great value."

To buyers, value cars no longer mean $10,000 new cars, but rather cars a bit pricier that at least don't scream "cheap." In fact, prices of the well-optioned versions might be more important than the base price.

Hyundai Motor America CEO John Krafcik, at the Accent unveiling here, emphasized not only the low base price but also that the price with every factory option would be about $17,000.

"If you're going to sell an inexpensive car, it still can't be 'cheap,'" says Don Levin, spokesman for the Dave Mungenast dealerships in the St. Louis area. Buyers are "going to want as much as they can get."

Instead of basic transportation, buyers now want "to look at it and say, 'That's a really cool car,'" says Michael Sprague, vice president of marketing for Kia. "You want to be proud of your purchase.

Nissan sees two main groups of buyers for the redone Versa:

•**Young adults.** Hit hard by the recession, some are underemployed, still live at home to cut expenses and are eyeing new, fuel-efficient cars. Others just now got a decent job and want a credible new car.

"They should appreciate affordable, multi-passenger vehicles," such as Versa, says Larry Dominique, vice president in charge of product planning for Nissan North America.

•**Older adults.** Boomers trying to cut costs but unwilling to buy a car that lacks basic amenities, such as air conditioning and power windows.

And "not many in the middle," Dominique says.

Other buyer groups prefer bigger cars, or better-equipped vehicles, and can afford the payments.

Showing that all car companies don't share the same vision of value-car buyers, Kia says its redone Rio won't appeal just to students and pensioners. "We're going to be able to show that it has broader appeal," Sprague says, because the design was intended to be more stylish and emotional.

For car companies, moving up to value cars and away from cheap cars — which allow a low price in ads but which almost nobody buys — upgrades the image and reduces hostility between customers who want that sub-$10,000 car they saw advertised and dealers who don't stock the cheapies or try to talk buyers out of those low-profit models.

"We don't want to be in the $9,995 business," says Krafcik, referring to the stripped version of Accent the company previously offered.
The sub-$10,000 Versas and Accents never drew many buyers, and not many were built, says Jack Fitzgerald, whose Fitzgerald Auto Malls stores in Maryland, Pennsylvania and Florida sell a variety of brands.
"There weren't many available, and by the time they added stuff on, it went over $10,000," he said.

A balancing act

The tightrope that makers of value cars must walk is to try to push more features and nicer trim into low-price cars while protecting profits.
Nissan simplified the new Versa so much, it's been able to cut the number of parts by 20%, Dominique says.
More important, the company is building Versa on a platform shared by several models that, combined, should total a million sales a year worldwide.
Spreading development and manufacturing costs over such a large number of vehicles cuts the costs on each, leaving more headroom for profit even at a lower sticker price.
Versa, "even at this ($10,990) price, is very profitable for us," Dominique says.
"The lower the pricing, the more demanding you are on the cost competitiveness of your supplier base. That's the reason we selected Mexico, India, China and Thailand" to build vehicles on the same "V" platform used by the new Versa, says Carlos Tavares, head of Nissan Americas. "The cost basis is low, and the skills are very good."
Versa illustrates some of the surprising value car features, as well as the tradeoffs or shortcomings. Nissan forecasts that Versa' combined city/highway mileage rating will be 33 miles per gallon. But that's the model with extra-cost automatic transmission, not the standard manual, expected to be rated 30 mpg combined.
Only one engine is to be available, a 1.6-liter, four-cylinder rated 109 horsepower. No longer can buyers who want more power opt for a 1.8-liter engine.
Air conditioning and stability control are standard, but power windows still are optional.
As with all the soon-to-be-on-sale value cars, the final test — how it drives — hasn't yet been passed. Have automakers cut corners instead of just cutting costs?
"The old Versa was a nice car, refined to drive. We're hoping Nissan hasn't pulled that refinement out of that car," Champion says.
Whether value cars become hot items or just higher-price entry cars depends on how much value buyers place on small cars and new cars.
Champion: "The big question is, how many people are going to downsize to this size of (subcompact) car?"
In the expansive U.S., he says, "There's no downside to buying a (Chevy) Suburban except for the price of gasoline."
Shoppers know they can get a bigger, possibly nicer, used car for the same price as a new value car, and might choose used because it's bigger, Champion figures:
"To a large extent, the size of the car in the driveway shows your wealth."

Supporting Document 4: Volkswagen AG Annual Report 2011 pages 245 and 242

Supporting Document 5: Volkswagen Factbook pages 9-11, 27, 36, and 43

Documents 4 and 5 are attached separately due to their file format being incompatible with Microsoft Word