Course Learning Outcomes for Unit VIII

Upon completion of this unit, students should be able to:

7. Construct recovery strategies to improve organizational marketing goals.
   7.1 Produce an effective marketing plan executive summary.

Course/Unit Learning Outcomes	Learning Activity
7	Unit VIII Lesson Chapters 14 and 16
7.1	Unit VIII PowerPoint Presentation

Reading Assignment

Chapter 14: Global Strategies

Chapter 16: Harnessing the Organization

Unit Lesson



Lateral view of the VW Golf TDI at the 2010 Washington Auto Show
(Ortiz, 2010)

Incorporated in 1934, Volkswagen (VW) has been one of the world's most trusted global brands ("Volkwagen A.G.," 2018). That is, however, until the company was found to be falsifying diesel emissions data in 2015. Its global marketing strategy, which had been progressing smoothly, generating profits and growth at a continuous year-over-year pace, was instantly and dramatically interrupted. VW claimed to be customer centric, but now its customers, especially those who had purchased clean diesel cars, felt betrayed. Also, world regulatory agencies were circling their wagons, assessing the understated environmental impact costs that were sure to be levied against the automaker in the ensuing months, along with the billions in fines and criminal charges that were sure to be levied. VW would need to stop and address this challenge to its organization and begin to create new global strategies to see it through. It would involve many levels of leadership, ethics, and corporate governance and likely endure some form of government oversight. None of this compared to what it would need to repair its brand image and customer trust. Could VW survive and still be an effective global competitor?

In mid-2015, VW was well on its way to achieving its set strategic goals of overtaking Toyota as the world's largest carmaker. VW's CEO, Martin Winterkorn, himself an engineer, was implementing a strategic plan that encompassed the company's clean diesels, which were an integral part of that grand strategy, by dramatically increasing its car sales to the U.S. market. Supposedly, an internal memo attached to some of Mr. Winterkorn's weekend reading came to him over a year before the inconsistencies between the clean diesel test results were released. For reasons only known to Mr. Winterkorn, these concerns went unaddressed until they were made public in 2015. Whether Mr. Winterkorn knew of these concerns and simply overlooked them, refused to act, or did not read the memo (there is no evidence either way that he read the memo), he should have known. Once the diesel issue by VW was known, Mr. Winterkorn stepped down. Shareholder impact was immediate, and this was the appropriate thing to do. VW shares immediately fell by one-third ("A Mucky Business," 2015).

In September 2015, the successful business strategies that had propelled VW on a track to surpass Toyota as the world's largest carmaker had just hit a serious snag. It immediately raised questions about how widespread the diesel issue might be. Were VW's other German rivals, Bavarian Motor Works (BMW) and Mercedes Benz, rigging car diesel emissions tests too? BMW and Mercedes Benz were quick in their denials. No evidence has since been brought forward to prove otherwise. The diesel issue looked as though it was VW's own deliberate misdirection. To make matters even more damaging, before Mr. Winterkorn became CEO, he had been in charge of the research-and-development group that developed the errant emissions testing software.

Just before this scandal broke, the U.S. Justice Department was criticized for not criminally prosecuting General Motors' managers and leaders for their role in the failed recall of cars with a known ignition switch defect, killing 124 and injuring 275 people. Only a sizeable fine of $900 million was levied, but there were no criminal charges. Smarting from the public outcry that ensued, the Justice Department would not let VW off so easily. Nitrogen oxide emissions from diesel-burning cars and trucks cause up to 58,000 deaths per year in the United States alone. Therefore, the scandal could not be considered a victimless crime ("Dirty Secrets," 2015).

Instead of VW steadily forging ahead under the steady hand of its seasoned CEO, it was, instead, facing billions of dollars in fines, significant market share losses, untold damage to its brand, and the resignation of its CEO. Where clean diesels had been a cornerstone of VW's U.S. strategy, now there was a question if diesel cars, given valid rather than phony emissions tests, would ever be able to be accepted by its customers and the government to be sold in the U.S. market. With VW's business strategies, reputation, and financial future at stake, it needed to assess the damage accurately and quickly. Also, a new CEO needed to be promptly installed to lead the company in creating new global strategies that would restore faith in the carmaker from its shareholders, customers, employees, and stakeholders. In short, the ship was not sinking yet, but it was rudderless. A clear vision was needed quickly to restore confidence in the ailing company, while keenly and painfully remembering that this was a malady the company inflicted upon itself. VW's emissions cheating was borne out of its relentless desire to surpass Toyota as the world's largest car company. With its strategies to achieve that goal in tatters, it had to pick up the pieces and quickly move forward ("A Mucky Business," 2015).

Matthias Muller was named as the new CEO, replacing Winterkorn. Other strategy-healing steps taken by Muller have also resulted in significant company culture shifts. Local managers were given more leeway to tweak car designs and other product features. This was in response to the fact that car tastes vary significantly in different markets. His future pact with employees was designed to govern cuts in costs, employees' productivity, and overall strategy ("A Long Road to Recovery," 2016).

After promising monumental change, Mueller quickly moved to right the wrongs of the VW company. He admitted that in the company's bid to surpass Toyota, it sought to improve its scale but at the sacrifice of profitability. In the end, the emissions scandal was the result of a corporate culture moving blindly in the wrong direction. It was up to Mueller to learn from the company's mistakes and shortcut mentality to create new global strategies that would make the company a competitive force and win back its customers' trust.

One of the first moves designed to facilitate corporate change as VW's new CEO, Mueller replaced seven out of 10 senior executives. He also revamped the company's centralized decision-making by giving the new leaders more important decision-making authority. As bureaucratic redundancy decreased, administrative costs also began decreasing significantly. This was just the tip of the operational iceberg in which Mueller reconsidered all costs to tame VW's enormous, uncompetitive global cost structure. Moreover, car model

variation and VW's multitude of available options were due to be significantly reduced, simplifying manufacturing and distribution cost structures ("Emission Impossible," 2016).

VW's previous marketing efforts failed to respond to its customers' demand for sports utility vehicles (SUVs). Its enormous research and development budget, significantly more than global rival Toyota, failed to enable it to keep pace with the development of electric car technology. No inexpensive platform has been developed for budget cars in emerging markets. VW's development of a standardized multi-model car platform has not produced the level of savings it had hoped. Finally, with the majority of its auto production remaining in Germany, its highly paid, highly trained German worker productivity has remained stubbornly low. Meanwhile, its European competitors continued improving their worker productivity by moving their assembly lines to low-wage countries. VW remains committed to Germany, stating it is a German company. These challenges would have been enough for any company without the added burden of the diesel issue.

Although VW is not ready to give up on diesel engine technology yet, it has quickly changed its strategic direction and business strategies to better its customers' and governments' desires for cleaner-running cars. Playing catchup to its competition, it has pledged to bring 80 new electric vehicles on to the market by 2025, including 50 all-electric vehicles and 30 plug-in hybrids. They have finally responded to the SUV market demand, hoping to leapfrog the competition with improved styling, more sophisticated electronic gadgetry, and a wide range of online and smartphone services via the VW Car-Net. VW is finally expected to reach, or even surpass, its goal of 10 million vehicles sold worldwide (Volkswagen, 2017).

Through the reaching of this goal, VW is even back on track to surpass Toyota as the world's largest carmaker. In this extremely competitive, dynamic, and global marketplace, one thing is certain: VW's rise in fortunes will not go unnoticed or unanswered by its longtime rival, Toyota. Both VW and Toyota claim to be customer centric. Their organizations have been designed to require their leaders to understand the strategic value of marketing. They have created the necessary performance metrics to reward innovation, global thinking, and total customer service across all parts of their respective firms. They have created organizations that enable them to think globally and to act locally in creating offerings and serving their customers. This, in part, is what has made them both fierce competitors and the world's largest carmakers.

References

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Suggested Reading

In order to access the following resource, click the link below.

The United States, although still one of the largest marketplaces in the world, no longer represents the largest opportunity for sustained year-over-year growth. China, with almost four times the population of the United States, is expected to overtake the U.S. market size. Companies continue to look at emerging markets internationally for additional growth opportunities. This article demonstrates these changes on marketing strategies.

Fan, Y. (2008). The rise of emerging market multinationals and the impact on marketing. *Marketing Intelligence & Planning*, *26*(4), 353–358. Retrieved from https://search-proquest-com.libraryresources.columbiasouthern.edu/abicomplete/docview/213114910/3E871CEBAF4C4C8DPQ/1?accountid=33337

Learning Activities (Nongraded)

Nongraded Learning Activities are provided to aid students in their course of study. You do not have to submit them. If you have questions, contact your instructor for further guidance and information.

Chapter 14 "For Discussion" Questions

Review the Chapter 14 "For Discussion" questions on page 263 in your textbook, and answer one to two questions. Submit your responses to your instructor for relevant feedback.

Chapter 16 Knowledge Check

Complete the Chapter 16 Knowledge Check to gain a better understanding of the lesson.

Click here to access the Chapter 16 Knowledge Check.