

CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



Does Volkswagen's Dieselgate Exhaust Its Daughter Brands?

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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WRITTEN CASE

The authors prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

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Does Volkswagen's Dieselgate *Exhaust* Its Daughter Brands?

CEO of Volkswagen Group Matthias Müller sits in his Phaeton on the way to a management conference in Wolfsburg, Volkswagen headquarters, while reflecting on the hard times his company is currently facing. He was appointed as CEO of Volkswagen Group on the 25th of September 2015 after former chairman Martin Winterkorn resigned in accordance with the recent happenings. American authorities revealed the corporation's use of cheating devices in its diesel cars, which whitewashed emission test results. Media spread the news all over the world, which exposed other affected Volkswagen cars in various countries. As Müller is thinking about his company and its future, he explores the impact of the crisis on different stakeholders and how he should act in this situation.

Background and History of Volkswagen Group

The Volkswagen Group has its roots in 1937 when the German Labor Front established the car manufacturer Volkswagen. This brand "Volkswagen Passenger Cars" was also the first brand of the corporation and plays a core role in terms of sales. The main manufacturing plant was built in Wolfsburg, Germany. After the second world war, Volkswagen soon became the biggest car manufacturer in Europe. Today the group is a stock listed company and produces cars in more than 62 plants located in more than 30 countries all over the world.

In the car industry, Volkswagen Group is seen as a market leader, with a sales growth of 5% from 2013 to 2014, a total number of 10 million sold cars in 2014 and earnings before tax of about 15 million €. These numbers were achieved by organic growth and numerous strategic acquisitions of different car brands, which were made to target different customer segments. The company now consists of the eight passenger car brands Volkswagen, Skoda, SEAT, Lamborghini, Porsche, Audi, Bugatti and Bentley, the motorcycle brand Ducati and the three commercial vehicle brands Volkswagen Commercial Vehicles, Scania and MAN. All the brands have different positionings, from cost leaders like Skoda to super sport cars like Lamborghini and Bugatti. Additionally, the brand Volkswagen Financial Services offers leasing, loans

and insurances for cars. An overview of the complete brand portfolio of Volkswagen Group can be found in **Exhibit 1**.

The Volkswagen Passenger Cars brand stands for innovation, enduring value and responsible cars and has over 70 different car models in all the major market segments. With its 'Think Blue' product lines, Volkswagen strives for an environmental friendliness and fuel efficiency, which are significant values of the brand. These elements of Volkswagen's brand identity were also communicated to customers. On the US market, especially diesel cars were advertised by Volkswagen as environmentally friendly, respectively "TDI Clean Diesel", to counteract common perceptions of diesel vehicles being louder, slower and smellier.

The Incident

The Environmental Standards agency (EPA) first announced the irregularities of Volkswagen company on the 18th of September 2015. The corporation was accused of betrayal, as it deliberately programmed the cheating devices to turn down emissions specifically when diesel engine cars were tested in the US. This allowed cars to emit up to 40 times more than the legal pollution limit. Volkswagen Group US chief Michael Horn, as well as CEO Martin Winterkorn apologized shortly after the disclosure and thus confirmed Volkswagen's wrongdoing. By then, the affected models included several Volkswagen Passenger Car models and one Audi model. A result was also a decrease of Volkswagen share price by almost 20% immediately after the discovery of the *Dieselgate* issue. German chancellor Angela Merkel claimed for full transparency of Volkswagen to resolve this scandal.

In November 2015, Volkswagen already felt the consequences of the crisis, as Volkswagen sales plunged by about 25% in USA in that month. Chris Murphy, sales manager at Volkswagen of Oakland in California said "this is definitely going to impact our business". A dealer in New Jersey felt betrayed after spending millions of dollars buying diesel Volkswagen cars in the belief they were clean-burning and highly fuel efficient. At the same time he was concerned about the customers, who had bought these cars of a brand they cannot trust anymore.

Additionally, Volkswagen clarified in late September 2015, that not only cars on the US market, but also European Volkswagen cars were affected. European reactions followed immediately. German minister of transportation declared that he was planning to implement new emission tests for Volkswagen's and other manufacturers' cars in the coming months.

Furthermore, Volkswagen Group admitted that out of the 11 million diesel powered cars affected worldwide, 3.3 million SEAT and Škoda cars were also affected. This is the result of Volkswagen's use of the platform strategy implemented across the whole corporation. The same car components like engines and other expensive parts are used by various models of different brands. On the one hand Volkswagen can

hereby reduce costs, on the other hand it will lead to the risk of negative spillover effects between brands.

The happenings could have a severe impact on future customer buying decisions. Raffael Wuethrich, project leader for sustainability and energy at the Swiss Foundation for Consumer Protection estimated that at least “environmentally sensitive consumers will increasingly pay attention to emissions and avoid diesel-powered cars”. In the UK, affected Volkswagen customers expected a compensation for their non-environmentally friendly cars. If put into practice, this would involve huge costs for the corporation. On the US market, Volkswagen had to expect severe consumer reactions. The consumer rights law firm Hagens Berman wanted to file a three class action lawsuit because of fraudulent concealment, violation of laws and finally false advertising, as Volkswagen used the cleanliness of diesel cars in their value proposition.

In the beginning of November 2015, EPA announced that also other models of the premium brand Audi, as well as the sports car brand Porsche were affected. However, Volkswagen denied cheating on tests with the latter.

Shareholders and investors of Volkswagen Group felt betrayed and declared the failure to provide relevant disclosure of the doings with “fundamental dishonesty”. The resulting worldwide lawsuits Volkswagen would have to face were expected to go up to 40 billion €. Also in Germany, some shareholders consulted lawyers to plead their right to roll back their stock purchases.

All in all, more than 11 million cars of the brands Volkswagen Passenger Cars, Volkswagen Commercial Vehicles, Audi, SEAT and Škoda were affected worldwide (see **Exhibit 2** for further details). Moreover, the crisis shows the technical interconnection between the brands, which is caused by the pursued platform strategy of Volkswagen Group. The overall reputation of Volkswagen Groups seems to be seriously damaged by the happenings.

CEO Matthias Müller arrives in Wolfsburg and prepares himself for the executive meeting, where he will discuss a five-point plan on how to manage the crisis. **Taking the role of the executive team of Volkswagen, how would you answer the following question:**

How are Volkswagen's daughter brands affected by the crisis and how should they be managed?

Exhibit 1 Brand Portfolio of Volkswagen Group

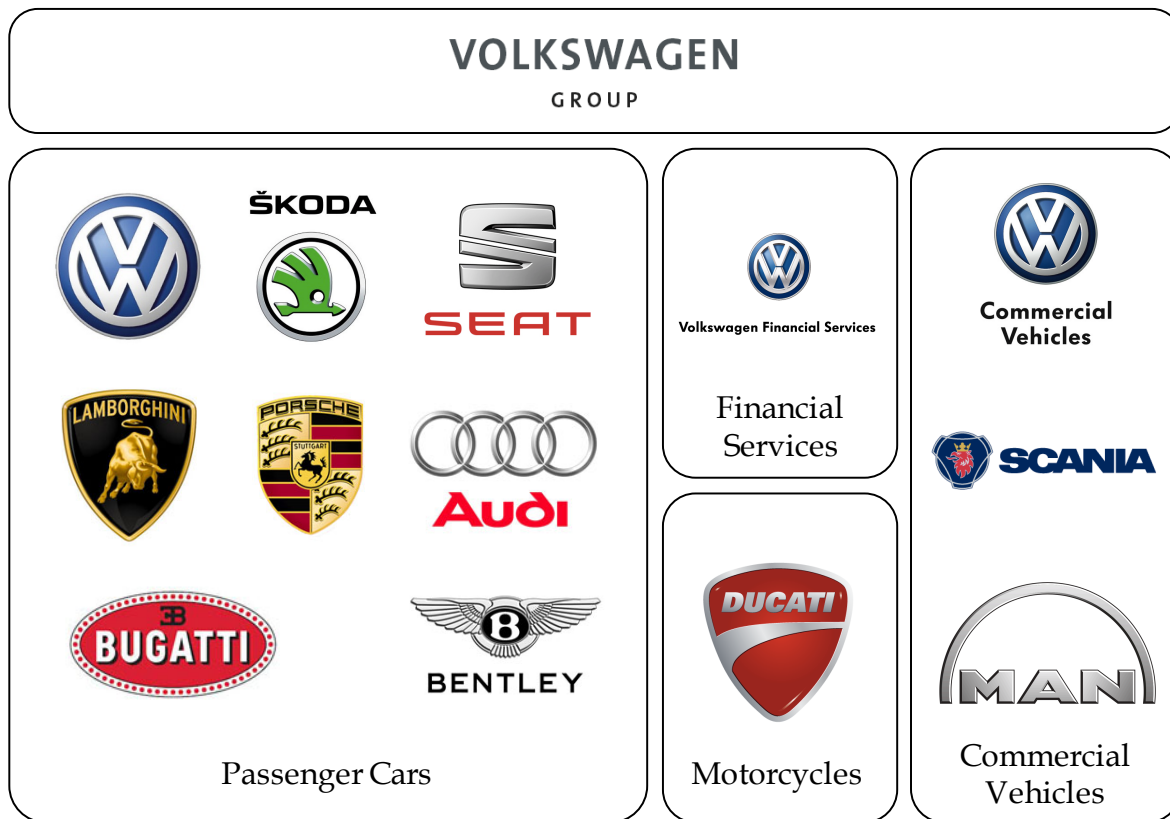


Exhibit 2 Affected Daughter Brands with Volumes

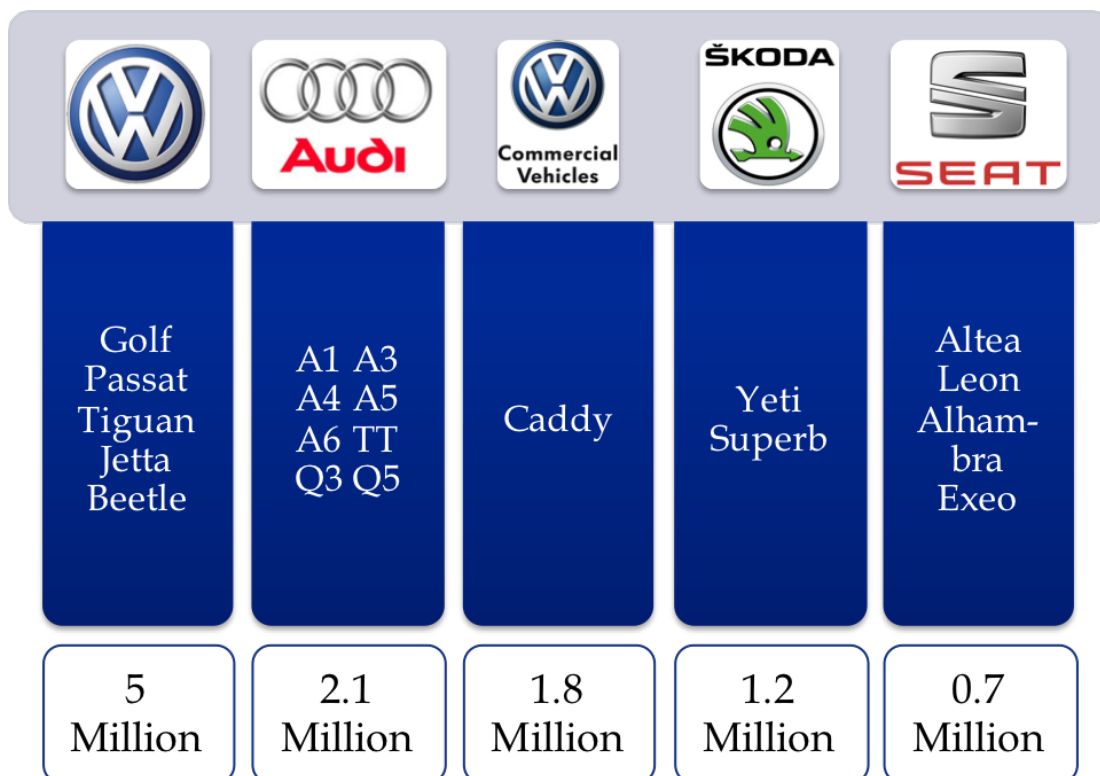


Exhibit 3 Volkswagen Group Daughter Brands Core Values

Audi	SEAT	Škoda	VW Commercial Vehicles	Porsche
Sportiness, progressiveness, sophistication, technology, innovation, design, quality	Outstanding design, Spanish, dynamic, young, passionate, perfectionist, emotional technology leader	Intelligent ideas, attractive design, technically simple, practical, ambitious	Superior mobility, reliability, economy, partnership, strong engineering	Exclusivity, acceptance, tradition, innovation, performance, suitability, design, functionality

Exhibit 4 Volkswagen Share Price in late 2015

