

# Volkswagen Public Relations Plan



Cases in Communication & Media Management  
*Communication 480*

The Titans

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“If there is a  
Volkswagen Way,  
it is to be  
determined,  
diligent and  
attentive to detail,  
with a glint of  
ruthlessness.”

-Quote courtesy of *The Economist*

(2012) “Volkswagen conquers the world”, Strategic Direction, Vol. 29, Issue: 1

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## Executive Summary

Volkswagen's 2015 emission scandal produced the need for a long term public relations plan. We were charged with crafting a long term public relations plan for an international company with a budget of \$400,000. Volkswagen is a global company that's was established in 1937. Prior to the scandal, the Chairman, Ferdinand Piech was ousted, and the company experienced a major failure in China, both of which damaged their reputation with stakeholders. The company handled the situation poorly from a PR perspective. All of these issues are likely related to their corporate culture. Initially the brand impact was severe but we predict it will fade over time based on our audience analysis. There is still a PR problem with influential and knowledgeable audiences that we called "in the know" audiences. After analyzing all of the facts surrounding the case, understanding the influence and impact the audiences have on Volkswagen, and putting the unstated pieces together, we developed our plan. The public relations plan involves three key audiences that have a unique impact on Volkswagen, "in the know audiences," automotive consumers, and the Executive Board. The plan also had key messaging that allowed the company to move forward and regain trust in its audiences. Our budget was spent on multimedia and employee training. Evaluation would use surveys and a two year plan to re-check our objectives. We also developed contingencies for legal and economic issues that could arise. The "So What" of this project was that identifying audiences is important and rewarding, and also that culture and PR must go hand in hand to be successful.

## Case Overview

Our assignment was to analyze the company, Volkswagen. The exact case wording: “Volkswagen has asked you to assess the long-term impact on their brand of their recent emission testing scandal. Based on your findings, they would like you to develop a long-term PR strategy. Your budget is \$400,000.”

## History

Volkswagen AG is a multinational automotive manufacturing company that has headquarters in Wolfsburg, Lower Saxony, Germany. Any further mention of “Volkswagen” or “VW” from this point on refers to the parent company “Volkswagen AG,” not the Volkswagen car brand. They design, manufacture, and distribute passenger and commercial vehicles, motorcycles, and engines. Founded in 1937, Volkswagen was created to make a “people’s car.” Their goal was to manufacture a car that would later become the Beetle. This was designed by Ferdinand Porsche’s firm, and the company was backed by Adolf Hitler.

Volkswagen was first run by the German Labor Front, which was a Nazi organization. They were headquartered in Wolfsburg, Germany. Hitler's project with Volkswagen was to develop and mass produce a car that was affordable, yet fast. His goal was to sell it for less than 1,000 Reich marks, which was the equivalent of about \$140 U.S. dollars. Hitler asked for the help of Austrian engineer Ferdinand Porsche. Shortly after the car was first displayed at the Berlin Motor Show in 1939, World War II began and Volkswagen stopped their production. But after the war ended, the Allies made Volkswagen the focus to attempt to bring back the German auto industry (History.com, 2009).

Initially, the plant mainly produced two military cars, the Kubelwagen and Schwimmwagen, which derived from Volkswagen. They grew quickly in the 1950s and 1960s.

By 1965, they had taken over Auto Union, which also produced the first post-war Audi models. Even though Volkswagen was growing, they wanted to be number one. They first wanted to grow in the United States, where they had only had a small presence at this point. This was partially due to the car's Nazi connections and the unusual shape that Americans weren't used to seeing in their vehicles.

In 1959, the "Beetle" campaign was launched and the unique size was used a selling point. Over the next few years, Volkswagen had become the top-selling vehicle in the United States. Sales grew slowly because of its unchanging design. But Volkswagen was able to come back from this as they released newer models such as the Rabbit and the Golf. In 1998, they started selling the "New Beetle." In 2003, the last "old Beetle" design was produced after almost 70 years of being on the market (History.com, 2009).

In September of 1982, Volkswagen had made its first attempt to expand outside of Germany by signing an agreement with the Spanish car manufacturer, SEAT. By June of 1986, Volkswagen had acquired a 51% stake hold in SEAT, which made it the first non-German subsidiary of Volkswagen. From 2002 to 2007, Volkswagen restructured so that they could form two differentiated brand groups: the Audi Brand Group and the Volkswagen Brand Group. The Audi Brand Group looked at "sporty" cars, such as Audi, SEAT, and Lamborghini. The Volkswagen Brand Group included the "classic" cars, such as Volkswagen, Skoda, Bentley, and Bugatti. By 2014, Volkswagen had become one of the biggest firms in the world and by 2016, they were the second largest automaker in the world, falling short of competitor Toyota.

Throughout Volkswagen's extensive history, there were three key CEOs that helped develop Volkswagen into the company it is today- both in good and bad terms. The first key CEO was Ferdinand Piech. Ferdinand Piech was the grandson of Ferdinand Porsche and started

off his career working for Porsche, and later transferred to Audi. Piech became the chairman and CEO of Volkswagen in 1993. When he entered the company, Volkswagen was in a difficult time. They were overspending, undermanned, and inefficient. They had also lost their reputation for quality automobiles.

Piech is the executive credited with turning Volkswagen into the booming company it is today. He oversaw the purchasing of Lamborghini, Bentley, Bugatti, Skoda, SEAT, and Audi. Though he was viewed as a “success” in terms of revenue, he was ruthless in his personality. One thing that Piech was known for is firing executives. Piech remained CEO until his forced resignation on April 25, 2015, at which point he moved to “Chair” of the Board and seems to have largely remained in power. His efforts to oust then-CEO Winterkorn backfired and led to his resignation, as discussed below under “Piech’s Split With Executive Board.”. A quote by Piech sums up his personality and time working for Volkswagen: *“My desire for harmony is limited.”*

The next CEO who is important to discuss is Martin Winterkorn. He will be touched on more during the “culture” section following the history. Winterkorn became CEO of Volkswagen in 2007. Prior to this, he was the chairman of the Board of management of Audi. He ended up resigning from Volkswagen on September 23, 2015, just days after the emissions scandal was revealed. When Winterkorn came into Volkswagen, he created “Strategy 2018”, which will be touched on more later. In brief, Strategy 2018 was designed to pass Toyota and General Motors, two large competitors, in terms of units, profitability, innovation, and customer satisfaction. Like Piech, Winterkorn is seen as being demanding toward his employees. He was also very product-focused and wanted to see results from their work.



Finally, we have Volkswagen's current CEO, Matthias Mueller. Mueller became the CEO of Volkswagen on September 25, 2015. He began his career at Audi working as a toolmaker, moving up to product manager and eventually coordinator of the Audi and Lamborghini model lines. In 2010, he became the CEO of Porsche, and following the scandal and departure of Winterkorn in 2015, he became CEO for Volkswagen. Since the scandal, he has replaced seven out of 10 senior executive members of Volkswagen (The Economist, 2016).

## Previous Situation

The "previous situation" is where we will examine Volkswagen prior to and leading up to its emission testing scandal. This includes their subsidiaries, stock information, financial information, culture, and environmental initiatives.

## Subsidiaries

Volkswagen is one of the world's biggest automobile manufacturers and is the global leader in automotive sales volume as of February 1, 2017. As of 2016, the company was worth more than \$68 billion. They have worked hard to diversify themselves and they have acquired several diverse companies and brands. At the beginning of 2016, Volkswagen owned 12 subsidiaries that include many well-known vehicle brands. The car company has operations in over 150 countries and has 100 factories between 27 different countries.

Volkswagen sells passenger cars under Audi, Bentley, Bugatti, Lamborghini, Porsche, SEAT, Skoda, and Volkswagen marques, or "make of car." They also sell motorcycles under Ducati and commercial vehicles under the marques MAN, Scania, Neoplan, and Volkswagen Commercial Vehicles. According to the website, Volkswagen describes their subsidiaries as: "Twelve brands with an individual identity and a common goal: mobility. For everyone, all over the world. Each brand operates as an independent entity on the market. The product spectrum

ranges from motorcycles to low-consumption small cars and luxury vehicles. In the commercial vehicle sector, the products include ranges from pick-ups, buses and heavy trucks.” (Volkswagen AG, 2017).

Audi is one of Volkswagen’s oldest purchases, having bought it in 1966. Volkswagen acquired control of SEAT in 1986, which made it the first non-German marque of the company. They later acquired Skoda in 1994 and Bentley, Lamborghini, and Bugatti in 1998. More recently, Volkswagen took control of Scania in 2008 and Ducati, MAN, and Porsche in 2012. By purchasing Ducati, they had completely added another product class for their sales (Newell, 2016).

### Financial Information

Prior to the scandal, Volkswagen was doing well for itself in terms of revenue and gross income. In 2012, Volkswagen brought in over \$192 billion in sales, and this number increased in 2015 to over \$213 billion. This was a 5.35% increase in sales from the previous year. As far as gross income, in 2012, Volkswagen brought in over \$33 billion and in 2015, they brought in just above \$32 billion. This was a 5.42 percent drop from the previous year.

But, in 2015 it was stated that Volkswagen’s brand value had stood at just over \$31 billion, which made it the world’s third most valuable automobile brand. Volkswagen appeared to be moving ahead in value, with their brand value having increased from just over \$27 billion in 2014 (Haigh, 2015).

Volkswagen had bet on China almost 30 years ago, knowing that they would make it big there with vehicle sales. As of July 2012, Volkswagen owned 18% of the car market in China. They sell two million vehicles there a year. Volkswagen also has a 22% market share in Brazil

and is expanding in Russia, with a current share of 9%. The weakest share is in India, where the share is less than 5% (The Economist, 2012).

## Stock

Prior to the scandal, stocks were around \$150 per share between 2013 and 2014. They peaked at \$250 shortly into the 2015 year. Between 2014 and 2015, it was clear that the stocks were already dropping slightly and took a large hit in 2015. The drop is attributed to two main occurrences. The first was the market in China, discussed more in depth below under the sub-header “China.” The second was the fallout between Ferdinand Piech and then-CEO Martin Winterkorn, also outlined below. This resulted in Piech resigning from the company.

A notable part of Volkswagen’s stock information is shown in their stockholder information. Within Volkswagen’s voting shares, the Porsche-Piech family holds 52% of the stocks. This means that an ex-CEO and his family owns over half of the stocks for Volkswagen. Other shareholders include the Lower Saxony state government with 20%, Qatar with a 17% share, and investors with 11%.

## Culture

The culture of Volkswagen is one of the reasons why the scandal happened and why it continues to happen. Former CEO Martin Winterkorn was a demanding boss who was what we could describe as an extreme authoritarian manager. He created a climate of fear within the company and didn’t respond well to failure. Many people described his management style as authoritarianism that often went unchecked due partly to the company structure that was unique to the German motor industry (Cremer and Bergin, 2015). One executive from Volkswagen has been quoted with saying, “There was always distance, a fear, and a respect... If he would come and visit you or you had to go to him, your pulse would go up. If you presented bad news, those

were the moments that it could become quite unpleasant and loud and quite demeaning.” (Cremer and Bergin, 2015). This sort of culture and work atmosphere was what created cheating and fraud and ended up with the company facing lawsuits and being in the middle of a criminal investigation.

Many of the managers at Volkswagen, outside of CEO Winterkorn, were too proud and didn't believe that they would be caught. They felt that there was no chance their actions would catch up to them. It's also extremely important to note that many of the higher positions within the company were dominated by male, white, German engineers. An example of the type of message that the company and their employees used internally is shown in a quote provided by former Sales Chief Christian Klingler: *“We need to prod the pigs in production.”*

After Winterkorn resigned, executives in Volkswagen came out and stated that the company drastically needed to change their approach. Volkswagen Group of America CEO Michael Horn stated during a U.S. congressional hearing that “This company has to bloody learn and use this opportunity in order to get their act together, and 600,000 people worldwide have to be managed in a different way. This is very, very clear.” He said this in relation to Volkswagen's integrity (Cremer and Bergin, 2015).

Bernd Osterloh, who is a member of Volkswagen's supervisory Board, acknowledged the unfit culture surrounding Volkswagen. He quoted in a letter to the staff one week after the scandal broke that “We need in future a climate in which problems aren't hidden but can be openly communicated to superiors. We need a culture in which it's possible and permissible to argue with your superior about the best way to go.” (CNBC, 2015). Along with the previous quote by Horn, this shows audiences that Volkswagen was aware of the culture problem and

problems were a long time coming. Yet, it wasn't until the company faced an international scandal that they realized the need for change.

### Think Blue

In 2011, Volkswagen created an initiative to become more environmentally-friendly. They wanted to recreate the “magic” of their 1960s campaign where they first marketed the Beetle. The “Think Blue.” campaign was brought to the United States to promote eco-friendly driving and creating green initiatives. Along with this, they also wanted to increase public awareness for their sustainable actions and encourage people to be active in the efforts to go green (Kurylko, 2011).

They initially stated that, “By 2018 we want to be the most ecologically sustainable car manufacturer in the world, while inspiring even more people to lead a more sustainable lifestyle.” Unfortunately, once the scandal was announced, the Think Blue efforts ceased. On September 21, 2015, just days after the scandal, Volkswagen put on Twitter “Are you ready to move forward? Think Blue.” The response was extremely negative from responders, with comments such as “Is it really blue or is it another lie?” and “Are you ready to clean up the pollution you spewed all over the planet?”

### China

While VW moves a large volume of vehicles through many regions, we wanted to highlight China in particular for three related reasons. First, it is the largest car market in the world, and despite recent economic dips, it continues to be a growing market (VW conquers the world, 2012). Second, it is of particular importance to VW. They established their first of two joint ventures in China as soon as the country allowed foreign investments in 1984 (SAIC Volkswagen) and have been growing there ever since. After investing €6 Billion there from

2003-08, VW became the biggest automotive manufacturer in China. In 2013 they produced 9 million cars there and held an 18% market share (SAIC Volkswagen)(VW conquers the world, 2012). The Chinese market was a huge part of VW's rise to prominence over the last 25 years; in 2013, they sold more passenger vehicles there than in all of Europe (Curtis, 2013). A perfect demonstration of VW's focus on this region can be seen on their executive Board; while most members have duties such as marketing or production, Jochem Heizmann's functional responsibility is stated simply as "China."

Finally, VW's recent problems in this region are relevant to their current public relations problems. Although VW was a dominant force in China for at least 5 years, their situation there now is much more precarious. In 2014, local Chinese carmakers began producing sports and crossover utility vehicles (SUVs and CUVs) at a very cheap price, some starting at \$10,000. This activity did not go unnoticed by local VW marketers, who reported back to the headquarters that they would need an extremely cheap SUV to compete in what they expected to be a quickly growing market. Though externally it remains unclear what plans were put in place to create this SUV, it ultimately was never produced (Schmitt, 2017).

We believe that the failure to heed the advice of those who worked in China was partially due to VW's culture, which has long received criticism for hampering communication (Ewing, 2015). The culture there has long been one of autocracy, wherein superiors may not be likely to genuinely listen to those who work underneath them.

This oversight would eventually come back to haunt VW. In late 2014 and into 2015, the Chinese car market seriously slowed in all categories except one: cheap SUVs, which became enormously popular (Schmitt, 2017 Jan 29). The impact of this can be seen in VW's stock price in mid-2015, as they fell from their high watermark from early 2015 (Appendix B).

Additionally, Chinese car brands, once looked down on by consumers there, have gained a great deal of the Chinese market. While 8 out of every 10 sedans sold in 2014 were foreign made, by the end of this SUV craze every other SUV sold was a Chinese brand (Schmitt, 2017 Jan 29). VW's China oversight has not only quickly impacted their bottom line, it has seriously eroded their overall position of strength in their biggest market.

Considering that we were able to find this in our research, it is clear that at some point afterwards, the story about how VW failed to preempt this problem leaked to the public. It is reasonable to assume it was known in some capacity within the company prior to this as well. Naturally, this knowledge calls into question the decision making of VW's leadership, casting doubts on what was for a long time a Board that seemed infallible in their aggressive strategies.

The failure to address this approaching problem did not escape all of the Board, however. Ferdinand Piech, at that time the Chair of the Board, made it his mission to make an appropriately low-priced SUV for China. After disassembling a \$10,000 Chinese-made SUV, his engineers claimed they simply could not produce it at that price. So he went directly to the source, intending to employ the creator of the car to make it for VW instead. To do so, he apparently planned to create a third joint venture in China. When word of this reached to the two joint ventures they already had, they were furious, and the deal fell through (Schmitt, 2017 Feb 2). This resulted not only in serious implications for the Chinese market, but also began the rift between Piech and Winterkorn that would eventually see Piech forced out of the Board.

### Ferdinand Piech's Split with Executive Board

Previously covered in "History" and "Culture," Ferdinand Piech was described by long time automotive businessman Bob Lutz as an "autocrat's autocrat" and simultaneously a "genius" (Automotive Hall of Fame, 2014). Piech is largely responsible for both pulling VW

from the doldrums and establishing its no-nonsense culture. Heald seemed proud that he was the one called on when the company was in “severe difficulty” (Schwartz, 2017). Piech is a true engineer, a “petrolhead,” with roots dating all the way back to Ferdinand Porsche, founder of the Porsche car company (Lutz interview). His sway over VW can hardly be overstated; not only did he serve as CEO and alter the course of the company, he also is de-facto leader of the Porsche-Piech family, who own 52% of VW’s shares (Volkswagen AG, 2015).

Once he was forced to step down from the CEO position in accordance with VW policy, he remained largely in control as Chairman. He was replaced as CEO by Martin Winterkorn, his protege of sorts and the man who executed his strategies (Economist, 2012). For years, the pair continued to guide VW towards its goals, until a rift began to form between them after the Chinese SUV situation described previously. Additionally, a deal with another European auto manufacturer fell through around this time, furthering the rift between them, to the extent that Piech said “*I am at a distance to Winterkorn*” in April 2015, (Schmitt, 2017 Feb 2). Piech was publicly doubtful of Winterkorn as his successor, and the rift grew. Ultimately, this ended with Piech attempting to oust Winterkorn from the CEO position and replace him with his new choice: Matthias Mueller, leader of Porsche. In the end, the Board sided with Winterkorn, and it was instead Piech who was forced by the situation to “resign.”

These events are an important consideration when evaluating the public image of VW for a few reasons. First, the public nature of the situation was damaging. An executive Board falling-out like this is never a good look for a company, and naturally calls into question how the organization is being run. This is only amplified when the organization is airing their dirty laundry publicly. It’s natural for stakeholder and potential business partners to question the state



of the organization when the man who guided the company to the top is suddenly ousted in an ugly disagreement with the CEO.

Second, the timing of Piech's departure was exceedingly poor for VW. It lays between their China problem and the start of the "Dieselgate" scandal, described under "The Emissions Scandal." Not only does the close proximity of all of these events potentially multiply negative perception of them, the worst of them, the scandal, came right after the leadership shakeup. Considering VW's poor handling of the scandal, as discussed in "Initial PR Reaction", questions about leadership and the direction of the company only increased. These questions contributed to the resignation of Winterkorn on September 23, 2015, 5 days into the scandal (Makartoff, 2015). While Piech was forced out of the company, he is still part of the Porsche-Piech family who are the largest stakeholders in VW, making the nature of his connection to the company complicated.

Finally, the Piech departure is important to us because of who he was trying to replace Winterkorn with. His choice of CEO, Matthias Mueller, was the man who ended up succeeding Winterkorn after the scandal.

## The Emissions Scandal

There were several factors that led to Volkswagen's 2015 scandal commonly referred to as "Dieselgate." More than a decade ago, VW was competing against General Motors and Toyota for the number one spot in the global car market. At the time, it had a relatively small presence in the United States. The large car market in the United States presented VW with a growth opportunity. VW's specialty was in making small diesel engines which produced less carbon dioxide than petrol engines. Small diesel engines allow greenhouse gas laws to be met. However, these engines emit nitrogen oxides. Nitrogen oxides are pollutants that can cause emphysema, bronchitis and other respiratory diseases. Laws regarding these emissions are strict

in the United States. For VW, it made economic sense to push small diesel engines there, even though it was almost impossible to produce a mid-priced car that passed emissions testing.

In 2005, VW chose to use software that illegally modified engine performance. This, in part, was due to their organization culture previously mentioned. The illegal software sensed when the car was being tested, then activated equipment that reduced nitrogen oxide emissions. Specifically, the software adjusted catalytic converters used to recycle exhaust gases (Gates, Ewing, Russel and Watkins, 2017).

In May 2014, on-road testing sparked the California Air Resources Board to investigate VW. The research was conducted by West Virginia University researchers. Two models with 2-liter turbocharged 4-cylinder diesel engines were tested. When tested, the researchers discovered that some cars emitted nearly 40 times the legal levels of nitrogen oxides. In addition, the California Air Resources Board received a study by the nonprofit organization the International Council on Clean Transportation which indicated that the emissions value was significantly different between on-road and bench testing. The California Air Resources Board then asked VW for an explanation. In response, VW regarded it as a technical problem and offered to change their engines in December 2014.

In the summer of 2015, VW's Committee for Product Safety created a diesel task force and hired law firm Kirkland and Ellis to counsel them on United States emissions law. On September 3, 2015, VW provided information about the illegal software to the California Air Resources Board and The U.S Environmental Protection Agency (EPA).

On September 18, 2015, the EPA publically released a notice of violation of the Clean Air Act. It alleged that VW and Audi 2.0 diesel engine cars model years 2009 to 2015 included the illegal software. At that time, VW admitted to 11 million vehicles impacted across the globe.

On September 23, 2015, Martin Winterkorn resigned. Two days later, VW internally promoted Matthias Müller, head of its Porsche unit, to CEO. In October 2015, company veteran Winfried Vahland quit unexpectedly. He had been chosen to lead operations in the United States beginning November 2015. In September, the EPA also ordered VW to recall seven of its American car models with affected engines.

The situation grew worse for VW in November 2015 when the EPA found more affected models including an additional Volkswagen and Audi as well as a Porsche model. In January 2016, The U.S. Justice Department filed a civil suit against VW. They sought up to \$46 billion for Clean Air Act violations. In March 2016, The U.S. Federal Trade Commission filed a lawsuit against Volkswagen for false advertising. They claimed that U.S. consumers suffered “billions of dollars in injury” because VW had claimed that their diesel vehicles were environmentally friendly. In June 2016, VW claimed it would spend approximately \$10 billion to buy back about 475,000 2-liter engine VW and Audi A3 models.

The legal fallout from the scandal is still ongoing. Since June 2016, Martin Winterkorn has been under investigation for market manipulation by German prosecutors. This is because he waited too long to disclose company consequences over the scandal. In October 2016, VW agreed to spend \$4.7 billion on programs to combat excess emissions and support clean-vehicle projects. In November 2016, VW said it would stop selling diesel vehicles in the United States. Six high level executives in the United States including the head of engine development were indicted. In January 2017, a U.S. judge approved a \$1.2 billion settlement. 650 American dealers will receive an average of \$1.85 million over 18 months. VW has also agreed to spend up to \$22 billion in the United States to address claims from owners, environmental regulators, U.S. states and dealers. On February 6, 2017, Luxembourg, under investigation from the European Union

for not being tough on emissions cheating, launched a criminal case against VW. On February 27, 2017, U.S. Regulatory Compliance Group Leader Oliver Schmidt pleaded not guilty for playing a role in the decision to use illegal software.

Owners of affected cars who wish to sell their cars back to VW can register on [VWCourtSettlement.com](http://VWCourtSettlement.com). VW has agreed to buy back or fix affected vehicles by December 2018. The Federal Trade Commission has said that consumers can expect to receive about \$12,500 on an older-model Jetta and up to \$44,000 for a 2014 Audi. Thirteen vehicles total were affected (Appendix J).

## Public Relations Response

Volkswagen's public relations response was insufficient in mending the issues at hand. Numerous mistakes were made from the beginning. A quote from former CEO Martin Winterkorn sets the tone:

*"Automobile traffic is responsible for only 12 percent of total CO2 emissions. One should be able to point this out without being accused of changing the subject."*

VW did not issue a formal statement to shareholders about the issue until Sept. 22 (Ewing, 2016). This was four days after the EPA formally issued a public notice of violation. As previously mentioned, this came after a year of claiming the issue was a technical error and not deliberately illegal. Next, Winterkorn published a videotaped apology. Though it addressed the dishonesty, it did not extensively detail the illegal actions of the company. He blamed it on a small group of middle managers which underplayed the severity of the issue (Garcia, 2015). However, few believed that was the case since VW admitted to 11 million affected vehicles at the time.

Winterkorn resigned after his video apology and said, “I am not aware of any wrongdoing on my part.” However, internal documents including memos and emails suggest that he may know about the issue as far back as May 2014 (Hakim, 2016).

VW used both defensive and vocal commiseration reaction strategies. However, their “apology” was more of a non-apology or an insincere, halfhearted apology deflecting the blame.

Next, the chief executive of Volkswagen Group America, Michael Horn, admitted the company had “totally screwed up.” As of September 30, 2015, Volkswagen appointed Hans-Gerd Bode to Head of Group Communications, Investor Relations and External Relations. He was tasked with leading damage control (Volkswagen, 2015). Additionally, Volkswagen brought in three public relations firms in different countries. Specifically, they hired Kekst in the United States, Finsbury in Britain and Schuppener in Germany. This is in addition to the firm Edelman, already on retainer. VW also began paying former communications chief of BMW, Richard Gaul, about \$22,000 to work part-time as a consultant according to a contract reviewed by The New York Times (Hakim, 2016).

The new CEO Matthias Müller continued to make several public relations mistakes. In January 2016, he visited the United States and told National Public Radio VW did not lie, even though they did. Müller then called them back to reverse his statement (Hakim, 2016)

Another issue that may have negatively impact the reputation of VW is the internal promotion of Müller. He was an insider and lieutenant of Winterkorn. This made knowledgeable publics question his loyalty and agenda because they had lost trust in Winterkorn.

Furthermore, though Volkswagen continued providing restitution to its American customers and admitted cheating, it also continued to make excuses and attempt to justify the

situation by claiming that the same behavior was not illegal in Europe. Though this is a gray area in law, Volkswagen is not repaying their European customers even though cars in both markets are being recalled.

Interestingly, VW hired law firm Jones Day to conduct an internal investigation. However, according to the firm's website, it helps clients determine "whether and how to voluntarily disclose criminal conduct to the government."

In October 2015, VW placed advertisements in newspapers which stated, "We have broken the most important part in our vehicles: your trust." The goal of these advertisements was to reassure customers (Hakim, 2016).

In January 2017, Matthias Müller stated, "Volkswagen deeply regrets the behavior that gave rise to the diesel crisis. Since all of this came to light, we have worked tirelessly to make things right for our affected customers and have already achieved some progress on this path. The agreements that we have reached with the U.S. government reflect our determination to address misconduct that went against all of the values Volkswagen holds so dear. They are an important step forward for our company and all our employees" (Müller, 2017).

Currently, Volkswagen publishes press releases almost daily. Press release topics include sales increases, new vehicles, partnerships and information about settlements. Overall, the press releases focus on the future of the company. As previously mentioned, VW's website; [VWCourtSettlement.com](http://VWCourtSettlement.com), includes information about the settlements, videos and how-tos, court documents, notices, forms and frequently asked questions.

In terms of environmentalism, VW's "Think Blue" initiative hasn't been implemented since September 2015 before the scandal broke. In addition, VW had to give back their Green Car of the Year Awards for their 2009 Jetta TDI and 2010 Audi A3 TDI (Fleming, 2015).

## Financial Impact

Volkswagen took a large financial blow after the scandal. As previously mentioned, their stock was already in decline due to internal issues and the Chinese market. However, their stock dropped an additional 30% after the scandal. This drop is about a 50% drop since its record high a few months earlier (Appendix B)

As of February 24, provisions for the scandal rose to \$23.9 billion. In 2015, VW saw a net loss of \$6.2 billion, its first loss since 1993, and a 2% decline in vehicle sales. VW is also cutting 30,000 jobs to recover costs as well as cutting variable pay and bonuses for its top executives for several years (Kottasova, 2016).

## Initial Brand Impact

VW's reputation suffered following the scandal. Marketing research firm YouGov runs "BrandIndex." This measures public perception of brands by asking individuals if they have heard anything about the particular brand in the past two weeks, through what means and if it was positive or negative. According to BrandIndex, four days after the scandal broke, VW's brand perception plummeted to its lowest point in more than 6 years (Marzilli, 2015).

Prior to the scandal breaking, its perceptions was already behind other major car manufacturers. At its lowest, Volkswagen scored a -46, meaning 46% more people said they felt more negatively toward the brand. Approximately two weeks after the scandal broke, Volkswagen's U.S. perception appeared to stabilize with their score rising to -40 (Appendix D)

(Marzilli, 2015). Compared to the public's perception of Toyota after their 2009 scandal, VW made a faster comeback.

According to a Gallup Survey conducted in October 2015 following the scandal, the following data was collected (Gallup, 2015)

- **75%** of U.S. consumers were familiar with the scandal
- **29%** say the news has no impact on their purchasing decision.
- **16%** used words such as "dishonest," "liar" and "cheater" to describe Volkswagen's brand
- **41%** said the news makes them less likely to purchase a Volkswagen
- **28%** report they would never have considered buying a VW before.

Additionally, a Harris Poll taken in February 2016 ranked Volkswagen as last in Americans' attitudes toward the 100 most visible companies (Harris Poll, 2016). Nielsen Vice President Wendy Salomon stated that the public tends to show "a little more tolerance" for recalls and labor issues. However, they are "least tolerant" of "lying and misrepresentation and intentional wrongdoing."

## Current Situation

In 2007, Volkswagen created "Strategy 2018" which consisted of goals meant to drive Volkswagen to the top of the global automobile industry. The goals of Strategy 2018 include: deploying intelligent innovations and technologies to become a world leader in customer satisfaction and quality, increasing unit sales to more than 10 million vehicles a year, generating a sustainable return on sales before tax of at least 8% so as to ensure that the group's solid



financial position and ability to act are guaranteed even in difficult market periods, becoming the top employer across all brands, in all companies and regions. The ultimate goal was to “position the Volkswagen Group as a global economic and environmental leader...the best automaker in the world by 2018” (Volkswagen). However, when the emissions scandal broke in 2015, they changed it to “TOGETHER- Strategy 2025.” The company calls this “its biggest change process in history” (Volkswagen). TOGETHER- Strategy 2025 aims to transform their core business, build a mobility solutions business, secure funding, and strengthen innovation power.

### Strategy 2018-2025

Volkswagen’s Strategy 2018, a growth strategy launched in 2007 under former CEO Martin Winterkorn. Winterkorn said the goal of this program was to make Volkswagen “the world’s most profitable, fascinating, and sustainable automobile manufacturer.” After Volkswagen reached 10 million unit sales in 2014, Volkswagen was on their way to achieving these goals. However, when Toyota released their sales numbers on October 2015 for the first three quarters of the year, they had fallen behind (Forbes).

TOGETHER- Strategy 2025 was created under current CEO Matthias Mueller to keep up with the rapidly changing automotive industry but also as a result of what they refer to as “the diesel issue” (Volkswagen). They also acknowledge that it will take “enormous efforts to resolve” the effects of this scandal. This initiative has been developed by over 250 experts from across the company. TOGETHER-Strategy 2025 was built upon the foundation of Strategy 2018 and evolved from this as a result. The basis of this initiative “unites the knowledge, ideas, and vision of the company and its employees” (Volkswagen). This program is meant to be a long-term, forward looking strategical and tactical movement. The “TOGETHER” in the title stands for the company's way of thinking, which will keep the company moving forward (Volkswagen).

## Fallout from Piech's Departure

As discussed above under "Ferdinand Piech's Split From Executive Board," Piech's departure made the situation between him and VW complicated leading up to the scandal.

Piech's relationship with VW has only grown more complex since the scandal broke. After the scandal, VW's internal investigation resulted in Piech testifying to the U.S. law firm Jones-Day. Due to a leak it was later revealed that he stated that he not only knew about the scandal, but even alerted the Executive Board that it would become a problem a month before his departure. If true, this would put Piech's warning a full six months before the scandal broke in the news. According to the leak, Piech learned of the situation from Shin Bet, the Israeli intelligence agency who supplied him with internal documents from the Environmental Protection Agency suggesting they were aware of the diesel problems with VW cars. Supposedly the documents originated in the American intelligence community. While on its face it seems ridiculous, we can't rule out the possibility, since it has been confirmed that Israeli ex-ambassador Avi Primor, who supposedly supplied the information, does in fact work with VW (Schmitt, 2017 Feb 4). When this leaked, the Board immediately responded saying it was false and that they may even consider legal action against Piech- an action we would strongly advise against.

If Piech was still running VW, our approach may be different; given his nature persuasion to change culture would likely not be the best approach. But Mueller is more of an unknown. We can't be sure how personal the public conflict between Piech and Mueller has become. The unclear situation brings up numerous questions; Mueller is part of Piech's family and was his choice to replace Winterkorn, does this mean he will act as Chair in much the same way Piech would, or even act on his behalf? Will he take advice from Piech? Are they even on

speaking terms? Was the Board's threat of legal action against Piech just empty posturing or were they legitimately betrayed by him? These questions can't be answered or reasonably inferred without closer knowledge of the situation. Therefore we can't assume either that the culture will change drastically under Mueller or that he can't be persuaded to change.

It bears mentioning that most of the information regarding the falling out between Piech and the Board is available through leaks. These leaks could be calculated attempts to provide misinformation, attack one party or another, or even outright fabrications for the purpose of getting paid by media. The unknown motivations behind these various leaks makes it difficult to discern the truth of the situation.

## Culture

After the emissions scandal in 2015, Volkswagen dropped their slogan since 2007, "Das Auto," which translates to "The Car." They then changed their slogan to "Then. Now. Always." In addition to this, Volkswagen changed their mission statement in 2015 to "The Group's goal is to offer attractive, safe, and environmentally sound vehicles which can compete in an increasingly tough market and set world standards in their respective class" (Volkswagen).

Volkswagen's compliance chief of only one year, Christine Hohmann-Dennhardt, left the company in January of 2017. The firm has appointed her to the management Board only a year ago, and she was given the responsibility of repairing the auto empire's image as well as reshaping its corporate culture in the wake of the emissions scandal. According to The New York Times, "The unexpected culture of the executive, Christine Hohmann-Dennhardt, raises concerns about the automaker's willingness to change ingrained practices, a culture that contributed to the decision to install software designed to cheat emissions tests in more than 11 million cars" (Rao 2017).

## Revenue

On February 1, Volkswagen was ranked #1 in global automotive volume sales. Along with that, 10.3 million vehicles were produced in 2016 (Forbes). So, while Volkswagen's emissions scandal became well known and may have put the brand in a negative light, this did not negatively impact their sales as much as one would expect. While Volkswagen's customer base continued to purchase their vehicles, the resulting issue from the emissions scandal lies within the stakeholders, industry media and industry insiders. These groups have a more negative perception of Volkswagen and have lost trust in the company. Volkswagen should therefore focus on rebuilding the trust and relationship that they have lost with their stakeholders, the media, and those within the industry.

## Formative Research

In order to better help us gauge the public perception of the Volkswagen brand, we created a survey which had 58 respondents. In the survey, we asked respondents to answer the questions, "What three words come to mind when you think of Volkswagen?" The top answers to this question include "bug," "German," "old," "beetle," "foreign," and "car" (Appendix F). These words, along with many of the other answers that were given, reflect the brand itself rather than the emissions scandal. This is significant because it shows that, at least for many of these 58 respondents, they do not initially associate Volkswagen with the negative situation of their emissions scandal.

We later included the statement "I trust Volkswagen" and asked people to say whether they "strongly disagree," "disagree," "neither agree nor disagree," "agree," or "strongly agree" with this statement. There were 62% who answered that they "neither agree nor disagree" with the statement. Also, 21% agreed with the statement (Appendix G).

The next question read, “All automotive corporations can experience scandals such as those noted below. Which, if any, has Volkswagen experienced in the last 3 years?” The options provided were: mechanical failure, bribery, emissions, sexual harassment, and embezzlement. 58% responded correctly with “emissions” while 27% answered with “mechanical failure” and 6% believed Volkswagen has a scandal involving “bribery” (Appendix H). However, this question did have severe limitations. First of all, some read the question not as we intended. Respondents did not realize that they could answer “none” to the question just stated. Some also guessed on the answer as they let us know of this during the survey. Therefore, not all 58% of those who responded with “emissions” knew that Volkswagen had a scandal involving emissions in the past three years. Another limitation is that our sample population was primarily University of Wisconsin-Green Bay students. Along with this, the Volkswagen emissions scandal has been discussed in Communication classes on campus, so students who may not otherwise be aware of the issue have learned about them in classes. This creates bias in the sample. It is also possible that respondents looked up the answer online while taking the survey, as one respondent admitted to doing

The follow up to this question, for those who answered, was for respondents to “Briefly describe what you know about the Volkswagen scandal.” Of the 58 respondents, 45% had some knowledge of the scandal, 43% responded with “nothing” or were unsure, while at least 10% had learned about the scandal in class (Appendix I). We also found that there was a 40% scandal awareness decrease from when Gallup surveyed people about the Volkswagen scandal to when we surveyed people regarding the Volkswagen scandal (Gallup, 2015).

## Audience Analysis

We conducted an audience analysis to determine what the knowledge levels and influences were for each of our audiences. Within Volkswagen, we decided on three key audiences. They are: automotive consumers, “in the know” audiences, and the Volkswagen Executive Board. The other two key audiences that we identified are the executive Board and automobile consumers both existing and potential. The executive Board is important because nothing in our plan can be implemented without them allowing us to do so, and cultural changes must flow from them. Automobile consumers are critical for VW’s revenue.

The Automotive Consumers are those who purchase Volkswagen vehicles. This includes both potential and existing consumers. Within this audience, the consumers have the power to influence each other. For example, the existing consumers could suggest to potential customers to select a different brand based on Volkswagen’s scandal. For the automotive consumers, their knowledge level is personal if they have specifically been impacted by the scandal. Yet, their knowledge level only goes as far as they may have researched or learned about through the media. They will not know the “insider” information or what has been going on inside of the Volkswagen company.

This group was chosen as one of our key audiences because of the influence these groups have over each other. Volkswagen has done well sales-wise, and we want to continue to see growth in the company. Because of this, we wanted to address them and show them through our public relations plan and key messages that they are still an important part of this company and we want to continue to see them as consumers.

The “In the Know” audience is the audience that encompasses corporate workers, big auto-industry followers, and media workers. Specific examples include shareholders, regulatory

agencies, Stephan Weil (head of the Lower Saxony Estate), *Automotive News*, and *Forbes*. This audience has more knowledge about the scandal than a typical automotive consumer. They know the “inside” details about which the average person would not be knowledgeable, in particular they are aware of the executive power struggles and the China oversight. The “in the know” audience stands at the intersection of knowledge and influence, and can make or break audience and public perception as well as influence stock value.

This audience was chosen and was determined to be important to this case because there are many different people that fit into this category and they have strong influences over Volkswagen. We decided on the wording of “in the know” because they do know the details behind the scandal and know more than the general public does. Because we are addressing them with similar strategies and tactics and the same key messaging, they were put in the same category.

We finally look at the Volkswagen executive Board. For our case, we understood right away that the Executive Board is a key audience. Their knowledge of the scandal is the most extensive, as many of them have experienced the scandal firsthand or came into the company when they were reshaping their team after the scandal.

With our public relations plan, the responsibility lies with the executive Board to understand and begin implementing the plan. Without their approval, our plan cannot be put into place. They hold the influence and control over Volkswagen and its culture, and are therefore the only audience that will truly be able to implement this change.

## Stated/Unstated Problem

The stated problem was to assess the emissions scandal's impact on the Volkswagen brand. While there has been damage to the brand, the public relations problem is currently smaller than projected. As elaborated on further under "Long Term Brand Impact" below, passenger car customers perception of the brand is not projected to be very high, over the long term.

However we found that there are two large unstated problems in this situation. The first unstated problem is the perception of how VW is being run among the "in the know" audience as described above in "Audience Analysis." This is partially a stated problem. You would expect shareholders, industry players and people in industry media to have doubts about any company experiencing a scandal. However, this is a much more serious problem than one might expect due to Piech's ugly departure and the company's recent oversights in China that have damaged their position there. Since these events all occurred in a short period of time, questions about how VW is being run among this audience have increased greatly. These factors all have multiplied the negative impact of one another.

Second, we have discovered that VW's true problem lies internally. As described earlier the "how" of the company's operation is partially responsible for the scandal and the poor handling of the situation since. If a new organizational culture is not implemented, VW may not effectively prevent or react to crises. If another scandal were to arise in the near future, repercussions would be immense.



## Long term brand impact

Evaluating the survey that was conducted was a crucial part of determining the long term brand impact from the scandal. This data, along with a comparison to a survey conducted shortly after the scandal happened, research about previous automotive scandals, and research based on how long people remember scandals in general allowed us to determine the long term brand impact from the scandal.

The survey results that were covered earlier, were compared to another survey that was conducted shortly after the scandal occurred. By taking our research and comparing it to the other survey, we were able to assess the level of trust that people have in Volkswagen. When comparing these surveys, we found that 64% of car owners did not trust the brand right after the scandal and 14% of car owners do not trust the brand currently based on the results of our survey. (AutoPacific, 2015) This was a significant increase in Volkswagen's trust which is important because it means that people are still trusting and relying on VW and not focusing solely on what happened in the scandal.

The Toyota scandal that happened between 2009-2011 included a major recall of their floor mats which caused the pedals to become caught on the floor. (MotorTrend, 2010) That scandal had a much higher safety risk involved that actually led to several deaths and Toyota was still able to recover their brand image. Similarly, General Motors experienced a scandal with the ignition switch which led to a recall of some of their vehicles. The cars that were recalled had the potential to shut off while driving and that would mean the airbags wouldn't deploy in the case of a collision. This scandal led to the deaths of 124 people and General Motors is still one of the largest automotive brands in the US. By looking at these other scandals and the severity involved

with them, it would be reasonable to say that VW will also be able to maintain their brand through this scandal.

According to Pacific Standard, people typically forget the details of a scandal in approximately four years. (Pacific Standard, 2015) This means that it is crucial for VW to avoid another scandal during that period of time so that they don't keep going backwards with the brand. If they are able to avoid another scandal, VW will bounce back to being perceived as the same brand they were prior to the emissions scandal.

Our team believes we can help them to improve more than just getting back on track. The projection chart (Appendix D) shows VW's stocks depending on how they move forward. The bottom line on this chart here shows how we believe VW will do without using our plan and the top line shows how we believe they would do if they were to implement our plan. VW doesn't have a major PR problem with automotive consumers at this time, but without changing their culture, the chances of them having additional scandals are higher and that will lead to a PR problem. Another scandal would only amplify the questions from the "in the know" audience, which may then quickly reach a critical point that would spell disaster for the brand.

## The Public Relations Plan

The public relations plan for Volkswagen will be broken down by the audiences that were outlined in the audience analysis. These audiences were the "In the Know" audience, the automotive consumers existing and potential, and the Volkswagen executive Board.

## Key Messages

For each of our three audiences, we developed key messages that will be implemented through the Public Relations Plan. These key messages focus on the future and rebuilding to transition from the old Volkswagen brand to the new Volkswagen brand.

**In the Know-** *Promote honesty to repair trust in the company's modus operandi.* We are moving forward and working to correct our past mistakes. We chose this as our key message for this audience because they know the most about the internal operations of the company. It is important for Volkswagen to regain their trust in order to move forward.

**Automotive Consumers Existing and Potential-** *Promote customer value.* Repair the loss in trust by holding true to environmental objectives moving forward. Volkswagen must work to regain the faith of the customer's and prove through their actions that they are creating a positive change. This can be made possible through philanthropic initiatives.

**Executive Board-** *Promote change in organizational culture.* If we promote a change in organizational culture, we can position the company to implement both proactive and reactive strategies that either prevent or mitigate crises. The internal organizational culture has resulted in the negative headlines that Volkswagen has received over the past years. The organizational culture is related to the brand of Volkswagen, and if this is improved, then the brand itself will be strengthened.

## Goals, Objectives, Strategies, and Tactics

### In the Know

The first goal for this audience is to re-establish trust in the brand. This would be done to restore customer's faith in the company through a sincere approach. Our tactics for accomplishing this would be to use honesty in future promotions and advertising and to not place blame but discuss plans moving forward which would be more of a "how" focus. The objective for this goal is to have a positive increase in awareness and acceptance of 30% in 2 years.

The next goal for this audience is to strengthen the faith in company's *modus operandi* or way of operating which is important because stockholders and other people in this audience need to know that VW can still run the company properly. This would be done by using humility to persuade this audience that the changes are real and this will not happen again. The tactics for accomplishing this goal would be to encourage honesty in future promotions and advertising, to point out what they had been doing wrong in communications with members of this audience to show they know what needs to be fixed which would be a "So What" focus. We'd recommend using stakeholder meetings to communicate to investors how the company will change positively going forward. The action objectives for this goal are to decrease employee turnover rates by 10% in two years and have a 30% increase in positive attitudes about how the company is being run in two years.

The final main goal is to change media's perception on how the company is operated. This could be accomplished by giving media knowledge prior to major events by sending out news releases. It is important for VW to show the media the positive things they are doing in order to help improve public perception of the brand. The acceptance objective is to have a 30% increase in positive news stories over the next 2 years.

## Automotive Consumers: Potential and Existing

The first main goal for this audience is to improve customer service between Volkswagen employees and its customers. This goal is important because customers are currently issuing a lot of complaints about VW, especially on Facebook and Twitter. While they do have the claims process (Appendix K) outlined on their website, many customers don't hear back from VW in the amount of time they are supposed to respond in. Due to these issues, the strategy for this goal will be to make the claims process easier for affected customers because customer satisfaction can be improved by fixing this process. The tactics would be to provide customer service through social media and provide leniency on mileage requirements during claims process. The action objective to have all affected vehicles from emissions scandal repaired by 2025.

The next main goal is to increase positive relationships between VW and environmental agencies such as the EPA. One of the strategies behind this goal is to create awareness of green efforts because it is important to show they are working on fixing the environment after what happened in the scandal. This would be done by reinstating "think blue" initiatives which are Volkswagen's environmentally friendly movements and add to the "sustainability council" tab on the website. The next strategy would be to promote the recent creation of the sustainability council. This would be done by creating a highly visible tab on the website highlighting the effort. The final strategy for this goal would be to position the company to create relationships with environmental organizations and this would be done by donating resources and volunteering with environmental organizations. The action objective would be to have a 40% increase in environmental relationships within 2 years.

The final main goal for this audience is to strengthen association with historical brands and past success. The first strategy for this would be to leverage nostalgia of the brand such as

the Beetle and the Santana, which is a popular older Chinese car that was enormously successful. This would be done by including historic images in marketing campaign efforts and focusing on a nostalgic theme for social media pages. The next strategy would be to incorporate the 80th anniversary to show long-term success and trust of brand. This would be done by creating a video showing that VW is still the same company that they were in 1937. The final strategy is to leverage social media to share VW marketing effort by sharing photos and videos made to Volkswagen social media accounts. The action objective would be to increase interaction on social media by 15% in one year.

### Executive Board

Our primary goal for this audience is to convince them that a drastic shift in culture is necessary going forward. The primary strategy to achieve this is to alter their perception of culture and its relation to risk. We need them to understand that their culture has a number of negative, unintended, unpredictable consequences.

We've inferred that the Executive Board currently sees the risk associated with their culture as controllable and observable (Appendix L). They can control their culture, and also believe they can see its effects in the form of quality cars and what was once a good reputation. We intend to move them up to the "controllable unobservable" quadrant, so that they see their current culture's impact as *more* risky. To accomplish this, we would point out that they couldn't predict their problems in China, or the diesel scandal, and would then relate them back to the organizational issues that caused them. We would also use the "Integrity Triangle" described below in "Building and Maintaining Integrity."

## Building and Maintaining Integrity

We have developed an “Integrity Triangle” (Appendix M) to explain to the Executive Board the elements of organization integrity, risk and reputation management. This triangle also indicates how these elements relate to each other. Specifically, the gap between organizational integrity and stakeholder expectations represents the organization’s reputation. Overall, it can aid organizations in pinpointing continuous improvement areas.

Organizational integrity is comprised of several elements including inputs, enablers and outputs. The first element is the inputs. Inputs can include culture and ethics, compliance, quality, sustainability, safety, security and environment. VW made mistakes in several of these categories including culture and ethics, compliance, safety and environment.

The inputs are then multiplied by the enablers. These can include governance, regulators, leadership, risk, strategy, incentives, media and opinion leaders, all of which Volkswagen had made mistakes. The inputs multiplied by the enablers creates the outputs or behaviors, actions or financial results of the company. If the outputs exceed stakeholders’ expectations, the organization’s reputational is positive. If the outputs do not exceed stakeholders’ expectations, as in VW’s case, the organization’s reputation is negative.

By using this diagram we are framing culture and integrity as mathematical equations about risk. We’ve chose to use this framing to persuade an audience that has been resistant to traditional ideas about culture and compliance, as demonstrated by the departure of Christine Hohmann-Dennhardt, as covered above under “Culture.”

## Budget

We divided our \$400,000 budget into three broad categories: employee training, multimedia, and contingencies. \$200,000 would be spent on employee training, at a rate of \$800

per employee, based on industry rates for large corporations (Miller, 2014). This would train a total of 250 managers who control interactions with the audiences as broken down under the “PR plan” heading. They would be trained in key messaging and understanding of the big picture of the company and why changes in messaging are important.

\$100,000 would be spent on production of a 15 second video and other multimedia to help brand VW as more environmentally friendly on social media. We chose organization controlled social media as our primary platforms for these messages since placement elsewhere would take up too much of our budget. These prices were determined based on production costs for multimedia of this nature (Mall 2014) (Pauley).

Finally, we would set aside \$100,000 for contingencies. While we acknowledge that leaving a full 25% of our budget unused is unusual, it is also necessary given the specifics of this situation. As discussed under “Contingencies,” there are many potential issues that are not only possible, but even likely to arise in the near future. Given the serious nature of these potential issues, we decided to set aside a large portion of our budget, to give us greater flexibility in responding to them.

## Evaluation

In order to measure the effectiveness of our public relations plan, we need to determine if our objectives have been met in the designated time frames.

First, we will compile an implementation report which will document if and how the tactics were carried out. In this report, any delays or gaps that will impact the public relations plan in a negative way will be addressed. We will also note any problems encountered and how



they were solved. Tactic efficiency, group responsibilities and budgetary information will also be included in the report.

Next, several progress reports will be compiled throughout the duration of the plan in order to determine if any modifications to the plan are necessary. Due to the numerous pending legal issues Volkswagen is facing, this will be essential as changes may occur rapidly. We will be crafting progress reports every 2 years. When the public relations plan is completed, a final report summarizing the effectiveness of the plan will be compiled. We will also be sure to conduct both qualitative and quantitative research.

There are several criteria we will use to evaluate our objectives. To evaluate our awareness objectives, we will analyze media coverage including content, readability and message recall, and calculate media impressions and conduct awareness surveys. According to the book *Strategic Planning for Public Relations*, “Awareness evaluation focuses on the content of the message. It considers how many people were exposed to the message, how easy the message is to understand and how much of the message is remembered” (Smith, 343).

To evaluate our acceptance objectives, we will conduct attitude and opinion surveys. Audience feedback and benchmark studies will be essential in evaluating these objectives. To evaluate our action objectives, we will evaluate the implementation of organizational change. We will use direct observation to measure the effectiveness of our action objectives. Analyzing both cold and warm metrics on social media will also allow us to evaluate all of our objectives. We can do this through Google Analytics, polls, analyzing reviews, ratings and comments on pages and posts. Unstated culture as well as unstated problems can be discovered using social media as well. It will be crucial to analyze whether or not the content, connections, channels and communication are in sync with Volkswagen’s business and communication goals.

## Contingencies

We set aside a large portion of our budget for contingencies, since there are huge number of potential issues that could arise in the next few years that would threaten Volkswagen's public image. Below we've chosen to highlight several that we see as likely to occur and given our broad strategic approach. It bears mentioning that we would of course adjust these strategies depending on the context of the situation if and when it arises.

## Criminal/legal

The first contingency that we saw as having a high risk of occurring was further criminal or legal action toward Volkswagen. Unfortunately, we saw this as likely to happen due to the longevity of the scandal in and of itself. The software was first placed in vehicles in 2005 and it wasn't until 2015 that the scandal was brought to the public's eye. In 2017, we are still now seeing recent developments.

For example, in January 2017 a Volkswagen executive, Oliver Schmidt, was arrested after being allegedly accused of playing a role in deceiving regulator's about Volkswagen's use of the "defeat device" software used in their diesel cars. After his arrest, federal authorities charged five other current and former Volkswagen executives with the participation in the defeat device software. In February, Schmidt pleaded not-guilty. Volkswagen settled with the Justice Department and pleaded guilty to three felony counts of criminal misconduct. They also agreed to pay additional fines of over \$4 billion (Edelstein, 2017).

This recent example shows how ongoing the scandal still is and shows that they do not have a clear answer. There is a strong likelihood that more issues like this will arise if and when the scandal continues to be investigated. Specifically, there are a few legal actions we see as likely to occur listed below.

### Further legal actions from EU countries

After the scandal, pressure from the European Union (EU) began to increase pressure on some of its members that it deemed to be too weak on emissions (Euronews, 2017). One of these countries, Luxembourg, recently filed a new lawsuit against VW for their illegal actions. We expect that a one or more of these other countries to follow suit as a way to at least appear tougher on those who defy emissions limits.

Our response to this would primarily be to frame any new lawsuits as part of an old problem, one that is behind the new Volkswagen. It would also be important to stress that VW is prepared to deal with this issue and that it won't affect their ability to conduct business.

### Legal action against Board members/ex Board members

There are multiple external investigations into VW's actions leading up to the scandal.

At any time in the next several years, one of these investigations could result in legal action being brought against a current member or previous member of the Executive Board.

Our response to this would be to distance them as an individual from what the company does now. We want to be clear that they're no longer part of Volkswagen and don't represent their changed culture and core values. By taking these steps, we would help to distance from them and the past they represent.

### Legal action from business partners

VW has numerous deals and partnerships with businesses around the world, and many of them are probably disturbed by the current state of the company. For example, Deutsche See, a seafood producer in Germany, leases 500 vehicles a year from VW. They chose VW as their partner based on their environmental focus prior to the scandal. They've recently filed a lawsuit

against VW since they were clearly misled about VW's priorities (Schwartz). Other companies around the globe could follow suit, especially if the Deutsche See lawsuit is successful.

Again we would primarily seek to distance the reason behind the lawsuit from the current, newer Volkswagen. When the lawsuit is settled we would continue to focus on it as an opportunity to put the past events behind VW as it moves forward.

### *Economic*

The second most likely category of potential issues that could arise is economic in nature. Volkswagen is not currently weak, but they are vulnerable, and economic effects could damage them in this potentially dangerous time for VW. We identified one major issue that could get stakeholders and competitors wondering if Volkswagen is in a weak state.

### *Chinese market crash*

Markets in China have massive impacts on many global corporations, but it is especially important for VW as described earlier under "China." If the Chinese market dips in the next few years, it would have an impact on VW's bottom line, but also their image among "in the know" audiences.

Our approach to this event would be to reassure stakeholders by reminding them of several things: the strength of a brand that's been building in China for 30 years, successes in other markets, and the resiliency the brand and company has shown through past economic downturns over the last 80 years.

## Rejected Solutions

- Making automotive consumers (existing and potential) the primary audience. At first glance of this project, our suspicions were that the automotive consumers were going to be the key audience in the plan. We expected to find a public image crisis once we had conducted our initial research on the scandal. But after digging into the background and current situation, we realized that the problem lay with other audiences, and that the PR issues with VW's customer base were minimal over the long term.
- Try not to persuade the executive Board to listen to our plan. We debated how to approach the Executive Board several times while planning this case. While we knew organizational problems were present, we discussed whether we should address the culture directly. After all, this was a PR case first and foremost. Ultimately we realized that the PR portion of our plan couldn't succeed without change in the organization.
- Firing the top executives. At one point early on, we considered the possibility of advising Mueller or the Supervisory Board to fire one or more of the Executive Board members, since we saw them as a source of the underlying culture problems. However, we quickly realized that any further executive firings at this point in time would cause colossal damage to their image with stakeholders. Additionally, we wouldn't know who was responsible for the culture and who was just following along at this point, considering the executive turnover since the scandal broke. Instead, we decided to address the organizational issues with persuasion.
- Using television advertisements. While discussing tactics, we discussed creating one ad and using targeting advertisements to help re-brand VW as more environmentally friendly while also focusing on older vehicles that people still view favorably. We

quickly realized that placement of this ad would be too great a cost, given our limited budget even with specific targeting.

## So What?

During the course of this case, we've learned a variety of lessons. Foremost among them is an understanding of the relationship between public relations and organizational culture. They must go hand in hand if your PR campaign is to be successful. Developing a successful long term PR plan was extremely difficult, given the cultural approach of VW and their lack of apparent change despite pressure to do so (CNBC, 2015) . As a result, we were forced to address the underlying organizational issues in order to give ourselves the opportunity for success. This serves as an example of how organizational communication and public relations are intrinsically linked.

Second, we learned that determining your most important audience is both very challenging and rewarding. In this case, we determined that those who had both influence over VW's future and knowledge about their recent difficulties were our most important audiences. Therefore, we divided our audience based on knowledge level. That decision guided our plan forward from that point on and allowed us to understand how to approach the case's challenges.

We also learned the importance of crisis management as part of long-term PR plans. While we recognized that there were a number of possible issues on the horizon for VW's public image, we were only able to develop broad-stroke strategies for each of them, since we haven't learned that full skillset yet in class. It was clear that we were missing a piece of what we needed in order to develop a truly complete PR plan.

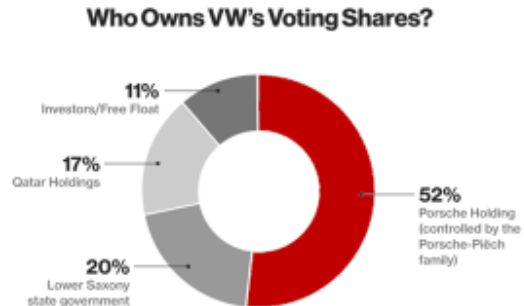
## Continuous Improvement

If we were to execute this case again, there are a few things we would change. When presenting our case and PR plan, we would include:

- Key messaging.
- Clarity on what the problem and unstated problems are.
- Clarity on what direction the PR of VW should head.
- Clarity on where and when to use proactive and reactive strategies.
- Clarity about connections between the case's background, the problem and our solutions.

## Appendix Appendix A

### Stockholder Information



The Porsche-Piëch family controls more than half of Volkswagen's shares

## Appendix B

### Volkswagen AG Preference Shares

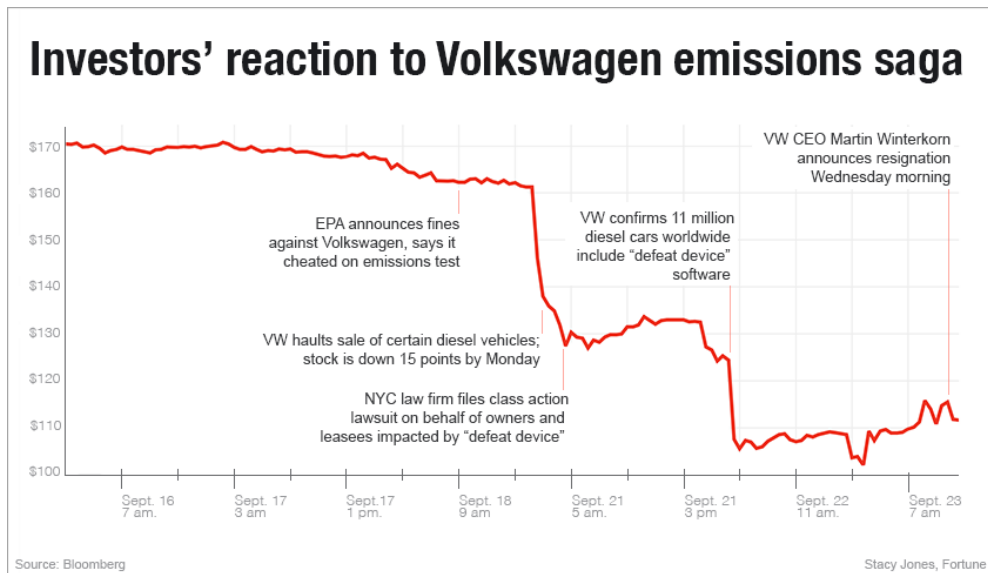
ETR: VOW3 - Feb 24, 5:35 PM GMT+1

141.25 EUR ▼0.40 (0.28%)

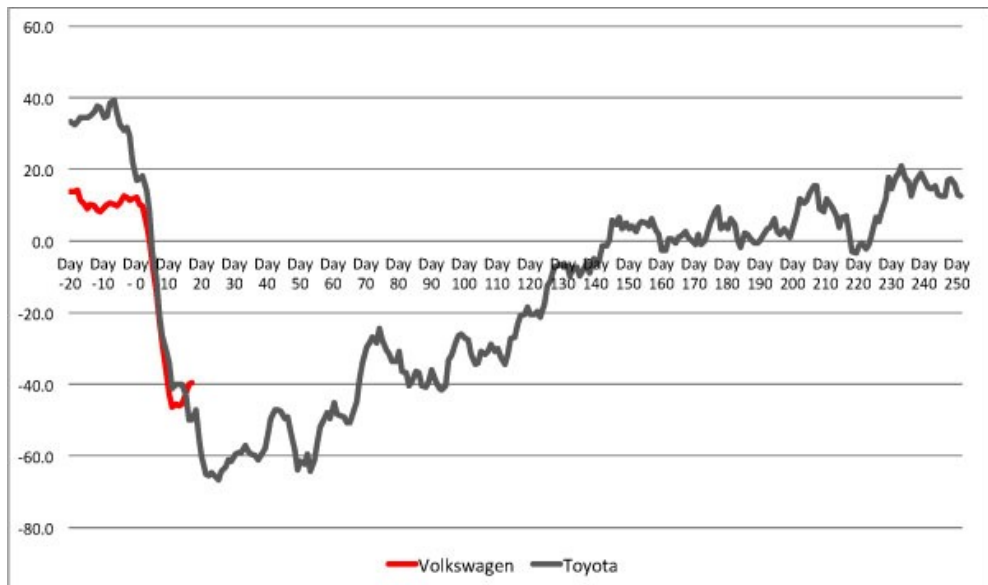




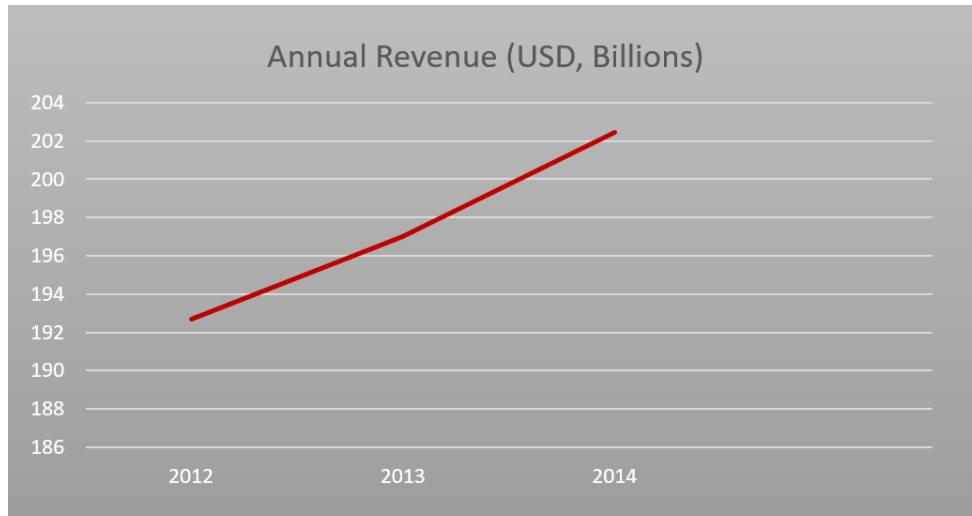
## Appendix C



## Appendix D



## Appendix E

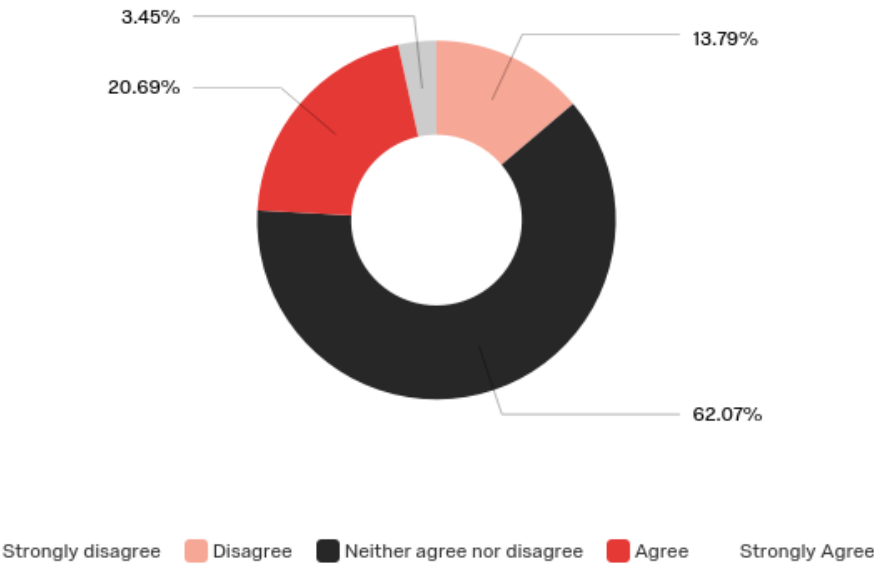


## Appendix F

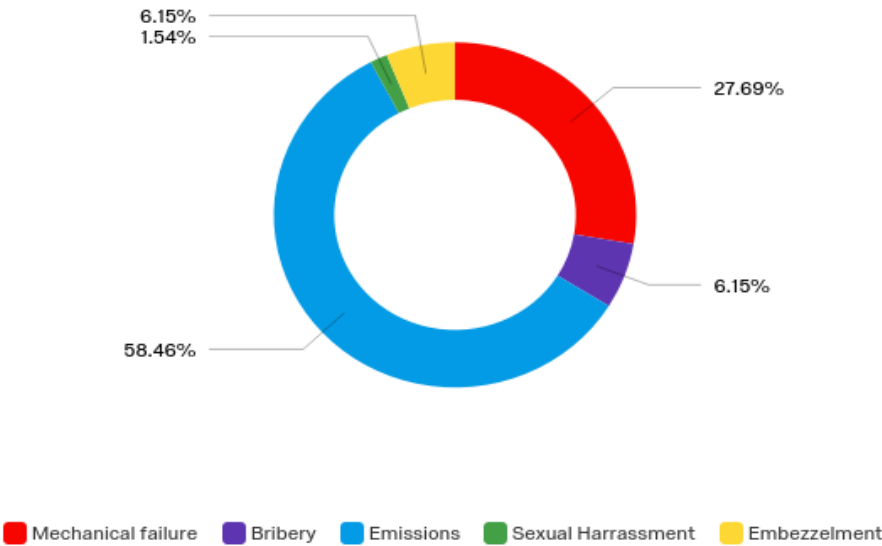


Appendix G

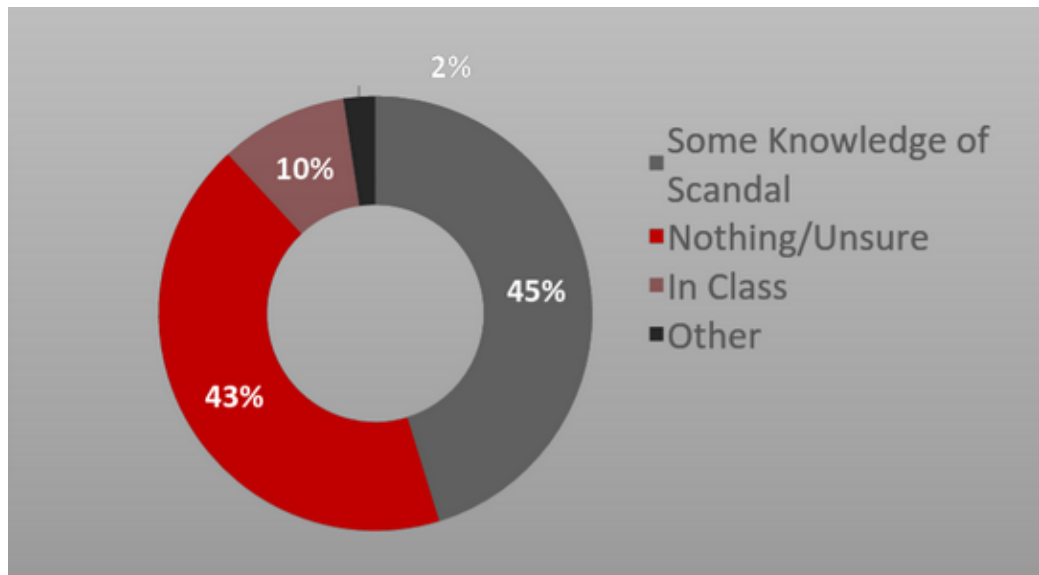
I Trust Volkswagen



Appendix H



## Appendix I



## Appendix J

### Affected Vehicles:

Volkswagen Beetle, Beetle Convertible (2013-2015)	<u>Audi A3</u> (2010-2015)	Porsche Cayenne (2014-2016)
Volkswagen Golf (2010-2015)	Audi A6 Quattro (2014-2016)	
<u>Volkswagen Golf SportWagen</u> (2015)	Audi A7 Quattro (2014-2016)	
<u>Volkswagen Jetta, Jetta SportWagen</u> (2009-2014)	<u>Audi A8/A8L</u> (2014-2016)	
<u>Volkswagen Passat</u> (2012-2015)	<u>Audi Q5</u> (2014-2016)	
<u>Volkswagen Touareg</u> (2009-2016)	<u>Audi Q7</u> (2009-2016)	

1. The proposed agreement would allow Volkswagen to recall more than 75 percent of affected 3.0L TDI V6 vehicles to bring them into compliance with the emissions standards to which they were certified, if appropriate modifications are approved by EPA and CARB.
2. Under the terms of the proposed Consent Decree, Volkswagen has agreed to:
  - a. Recall approximately 63,000 affected 2013-2016 Model Year Volkswagen, Audi and Porsche 3.0L TDI V6 vehicles with so-called Generation 2 engines to bring them into compliance with the emissions standards to which they were certified, if appropriate modifications are approved by EPA and CARB. If Volkswagen is unable to meet this requirement, it will offer to buy back or terminate the leases of these vehicles and may also seek approval by EPA and CARB to offer customers a modification to substantially reduce their nitrogen oxide (NOx) emissions.
  - b. Buy back or terminate the leases of approximately 20,000 affected 2009-2012 Model Year Volkswagen and Audi 3.0L TDI V6 vehicles with so-called Generation 1 engines or, if approved by EPA and CARB, modify the vehicles to substantially reduce their NOx emissions so as to allow eligible owners and lessees to keep them.
  - c. Contribute \$225 million to the environmental remediation trust that is being established under Volkswagen's 2.0L TDI settlements in the United States to fully mitigate the lifetime NOx emissions of the affected 3.0L TDI V6 vehicles.
  - d. As part of its agreement with the State of California, Volkswagen will also pay \$25 million to CARB to support the use of zero emissions vehicles (ZEVs) in the State.

## **Appendix K**

\* To be eligible, a vehicle must be Operable, meaning that it can be driven on its own engine power. Additional requirements regarding the vehicle's title also apply.

### *STEP1*

Claim Submission: Claimant submits claim and supporting documentation through the Online Claims Portal or using the Paper Claims form.

### *STEP2*

Document Review: Volkswagen reviews information and documentation submitted by claimant to determine whether all required information and documentation have been received.

### *STEP3*

Eligibility Review and Offer Letter Creation: Volkswagen confirms claimant is eligible for the Settlement Program, verifies loan payoff information (if applicable) and generates an offer letter for the claimant. Before the offer letter is sent to the claimant, the Court-appointed Claims Supervisor

verifies eligibility and confirms that the offer amounts are accurate. Once confirmed, final offer letter is sent to the claimant.

#### *STEP4*

Acceptance of Offer Letter: Upon receipt of offer package, claimant reviews offer. If claimant decides to accept the offer, they sign the offer letter and sign the release in the presence of a Notary Public. Claimant then sends both of these documents back to Volkswagen using the Online Claims Portal, mail or fax. Upon receipt, Volkswagen reviews the offer packet for completion.

#### *STEP5*

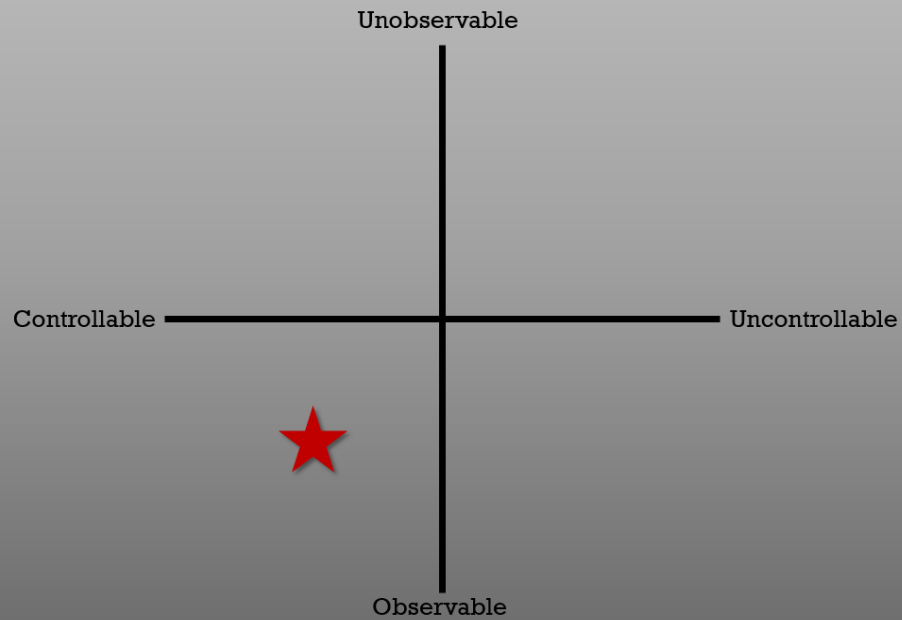
Closing Appointment, if necessary: After Volkswagen confirms the claimant's signed and notarized offer letter is complete, the claimant schedules an appointment for a Buyback, Early Lease Termination or Approved Emissions Modification. Former Owners and Former Lessees do not need to schedule a closing appointment.

#### *STEP6*

Payment: Current owners or lessees will receive payment at or shortly after the closing appointment, depending on the payment method selected and whether a negative mileage adjustment is required. Payments to Former Owners and Former Lessees will be sent within three business days after Volkswagen has confirmed that the signed and notarized offer letter is complete and the Former Owner or Lessee has selected a payment method. For more information on the timing of your payment, please [click here](#).

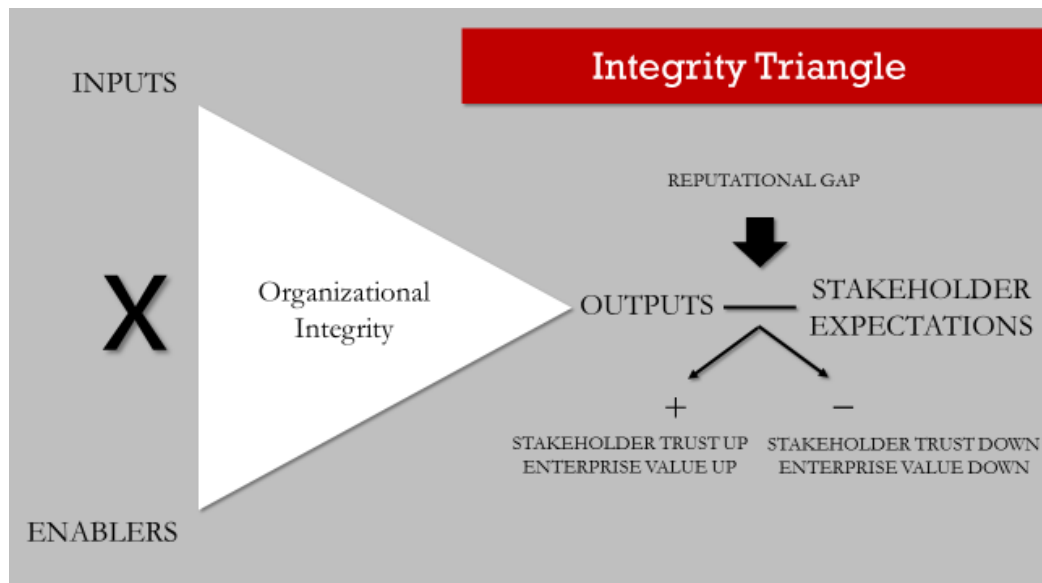
## **Appendix L**

## Risk management grid



## Appendix M

### Triangle



## 100 Facts

1. The Group operates 106 production plants in 19 European countries and a further eight countries in the Americas, Asia and Africa. Every weekday, 572,800 employees worldwide produce some 39,350 vehicles, and work in vehicle-related services or other fields of business. The Volkswagen Group sells its vehicles in 153 countries.
2. Volkswagen was started in 1937
3. Volkswagen was created to make a “people’s car” for Germany: something that was affordable but still fast
4. They were initially operated by the German Labor Front- which was a Nazi organization
5. Volkswagen was headquartered in Wolfsburg, Germany
6. Hitler’s project was to develop and mass produce an affordable yet fast vehicle that could sell for less than 1,000 Reich marks (\$140 at the time)
7. When World War II began, Volkswagen stopped their production
8. ”VW car sales in China helped it surpass Toyota (TM) to become the biggest automaker in terms of global auto sales in the first half of the year.  
But China is now the financial equivalent of one of George Carlin's dirty words. China's stock market mess and economic slowdown started to take its toll on the stock over the summer.”
9. “German industry is lauded for its efficiency and reliability. That such an iconic German brand, the ‘people’s car’, could behave in this way is beginning to undo decades of accumulated goodwill and cast aspersions over the practices of German industry,” says David Haigh, Brand Finance’s CEO.
10. Marketers are more positive about VW, 70% saying they’d gladly take a job there, liking the challenge.
11. According to the Brand Finance Nation Brand Report, Germany dropped 7% of its brand value from 2015 to 2016. It remains #3 in overall nation brands.
12. (5 Feb 2016) Volkswagen ran its first commercial ad campaign since the scandal, dropping the old tagline “Das Auto” replacing it with “Then. Now. Always.”
13. The ad shows a boy in an original VW Beetle and follows him throughout his life, with Volkswagens taking a central role.
14. “Marketing boss Jurgen Stackmann says: ‘Traditionally there is a close emotional bond between the Volkswagen brand, its customers and our products. This is the foundation of the Volkswagen brand. We want to harness that strength and reinforce that band....’”
15. Volkswagen was originally named: Gesellschaft zur Vorbereitung des Deutschen Volkswagens mbH
16. it was renamed simply Volkswagenwerk, or “The People’s Car Company.”
17. Originally operated by the German Labor Front, a Nazi organization, Volkswagen was headquartered in Wolfsburg, Germany
18. soon after the KdF (Kraft-durch-Freude)-Wagen (“Strength-Through-Joy” car) was displayed for the first time at the Berlin Motor Show in 1939, World War II began, and Volkswagen halted production



19. After the war ended, with the factory in ruins, the Allies would make Volkswagen the focus of their attempts to resuscitate the German auto industry.
20. Volkswagen sales in the United States were initially slower than in other parts of the world, due to the car's historic Nazi connections as well as its small size and unusual rounded shape.
21. In 1960, the German government sold 60 percent of Volkswagen's stock to the public, effectively denationalizing it
22. It operates through following segments: Passenger Cars, Commercial Vehicles, Power Engineering, and Financial Services
23. Volkswagen Group of America (VWGoA), a wholly owned subsidiary of Volkswagen AG, employs more than 6,000 people in the United States and supports more than 1,000 dealer locations in all 50 states. Volkswagen has more than 60 years of history in the United States, where VWGoA maintains more than 30 U.S. locations including a LEED Platinum-certified manufacturing facility in Chattanooga, Tennessee.
24. WHEN Ferdinand Piëch arrived as Volkswagen's chief executive in 1993, things looked dire. The carmaker was overspending, overmanned and inefficient, and had lost its reputation for quality. How things have changed: last year the VW group's profits more than doubled, to a record €18.9 billion (\$23.8 billion)
25. He has been a ruthless hirer and firer of executives: only last month Karl-Thomas Neumann was removed as head of VW's Chinese operations, supposedly for his disappointing performance, despite the juicy profits VW is making in China. Mr Neumann had been talked of as a possible successor to the chief executive, Martin Winterkorn.
26. Like BMW, another admired German carmaker, VW seems to have succeeded because it is run by petrolheads. Mr Piëch's passion for engineering pervades the group. He is the strategist; Mr Winterkorn the get-things-done guy. Hans-Dieter Pötsch, the chief financial officer, has helped a lot by controlling costs, says Max Warburton of Sanford C. Bernstein, an investment bank. VW's other chiefs enjoy considerable freedom—unless they incur the chairman's wrath.
27. “If there is a Volkswagen Way, it is to be determined, diligent and attentive to detail, with a glint of ruthlessness.”
28. Piech was ousted from VW after he lost a power struggle with then-CEO Winterkorn, whom he was trying to replace with Matthias Mueller, which was seemingly related to the failure to reach a deal with Daimler. Prior to his departure, Piech publicly criticized Winterkorn and said he would not be a candidate to succeed Piech as Chairman, even after other Board members backed Winterkorn. (9 Feb 2017)
29. A German media report stated that Piech told the VW Board about the emissions issue months before the scandal broke. VW responded that they already had dealt with these accusations, which apparently came up in a previous, independent investigation last year when examiners from the US law firm “Jones Day” classified the accusations as “implausible.” They also hinted towards possible legal action against Piech. (9 Feb 2017)

30. Piech refuses to testify for the parliamentary committee investigating the scandal, after a report emerged stating he told Winterkorn and others about the emissions issue 6 months prior to the scandal breaking. (12 Feb 2017)
31. Piëch was a tough leader who once wrote, "My need for harmony is limited," and touted the fact that he was only called to the helm when the company was in "severe difficulty." (12 Feb 2017)
32. Piech wanted a low cost SUV for the china market-very low cost. When VW engineers looked at the competition's offerings, they said they couldn't make it cheap, so Piech wanted to start another joint venture in china with them (would have required some legal manoeuvrings, you can only have 2):
33. "When the news of the *tech-a-tete* between Volkswagen and Great Wall became public, alarm bells rang at Volkswagen's Chinese joint venture partners. SAIC and FAW were furious, and the affair with Great Wall was hastily scrapped. This was in early 2015, and according to sources at Volkswagen, it was one of a number of reasons for the rift between Piech and Winterkorn. Early April, Piech dropped his famous "I am at a distance to Winterkorn" quote. Two weeks later, the secret Great Wall affair leaked, and a few days thereafter, Piech was out after losing a Boardroom showdown in which he wanted to replace Winterkorn with Porsche-chief Matthias Müller."
34. In December 2007, under then-CEO Martin Winterkorn, VW launched a growth strategy called "Strategy 2018." It used 4 strategic goals to drive VW to the top of the global automobile industry
  1. Volkswagen intends to deploy intelligent innovations and technologies to become a world leader in customer satisfaction and quality
  2. The goal is to increase unit sales to more than 10 million vehicles a year; in particular, VW intends to capture an above-average share of growth in the major growth markets
  3. VW's aim is a sustainable return on sales before tax of at least 8% so as to ensure that the Group's solid financial position and ability to act are guaranteed even in difficult market periods
  4. VW aims to become the top employer across all brands, in all companies and regions. This is necessary in order to build a first-class team
35. The ultimate goal of Strategy 2018 was to "position the Volkswagen Group as a global economic and environmental leader..the best automaker in the world by 2018."
36. In an interview with Forbes in 2013, Winterkorn said the goal was to make Volkswagen "the world's most profitable, fascinating, and sustainable automobile manufacturer" by 2018 and highlighted the goal of having the most satisfied customers and employees in the industry.
37. Until recently, Volkswagen was well underway to achieving these goals, having achieved over 10 million unit sales in 2014, more than half of which were attributed to the Volkswagen Passenger Cars brand. However, the success was short-lived. On October 26, 2015, Toyota officially released its sales numbers for the first three quarters of 2015; Volkswagen had fallen behind.

38. The key element of our “Strategy 2018” is to position the Volkswagen Group as a global economic and environmental leader among automobile manufacturers. In 2018, the Volkswagen Group aims to be the most successful and fascinating automaker in the world. In order to achieve that, we have set ourselves four goals:
- Volkswagen intends to become a world leader by using intelligent innovations and technologies, while at the same time delivering customer satisfaction and quality.
  - Over the long term, Volkswagen aims to increase unit sales to more than 10 million vehicles a year; it intends to capture an above-average share as the major growth markets develop.
  - By achieving a return on sales before tax of over 8.0%, Volkswagen will safeguard its solid financial position and ability to take action, even during difficult market periods.
  - Volkswagen is to become the top employer across all brands, companies and regions; it must do so in order to build a first-class team.
39. (15 Feb 2017) Preliminary approval set for May 2017 to begin repairs
40. \$1.2 billion set aside for buyback and repairs for 80,000 vehicles; Can buy back 20,000 vehicles and repair 58,000
41. A U.S. federal district court has given the 3.0-liter diesel buyback, compensation and repair settlement preliminary approval, bringing the owners of some 80,000 Volkswagen, Audi and Porsche models closer to a resolution.
42. (25 Feb 2017) A Volkswagen executive accused of helping cover up the carmaker’s emissions fraud is arguing that he was a minor player misled by company lawyers and information technology specialists. The defense offered by the executive, Oliver Schmidt, which was laid out in court documents filed late Friday, could foreshadow his fellow defendants’ strategies as the emissions scandal enters a new phase focused on criminal prosecution.
43. (24 Feb 2017) VW sets cap on executive pay. Volkswagen will set caps on executive pay, the German carmaker said as it announced a return to profit for 2016 following the “dieselgate” scandal.
44. Under the new rules, pay will reflect financial performance more closely. The chief executive's package will be limited to 10m euros (£8.5m), with a 5.5m euro cap for other Board members
45. Former chief executive Martin Winterkorn, who quit over the diesel scandal, took home 17.5m euros in 2011 because of large bonus payments.
46. (February 27, 2017) VW will pay a criminal fine of \$2.8 billion, and operate under the oversight of a court-appointed independent monitor for three years.
47. It will also pay \$1.45 billion to settle civil claims by the Customs and Border Protection agency under U.S. customs and environmental laws.
48. A Volkswagen executive appeared in a federal courtroom in Detroit on Thursday to be arraigned on charges related to the automaker's diesel-emissions cheating.

49. Oliver Schmidt previously headed the VW Group's U.S. regulatory compliance group. He was arrested by the FBI in Florida last month, while attempting to return home to Germany from a vacation.
50. (27 Feb 2017) Volkswagen has made substantial progress in fixing diesel vehicles around the world, applying a software patch to some 3.4 million cars globally, the automaker has revealed. This includes 1.4 million cars in Germany -- the biggest country with VW vehicles that have needed the software patch -- out of a total of more than 12 million.
51. "According to the latest figures, well over 200,000 customers worldwide are added each week; in Germany, the figure was up to 100,000 per week," Volkswagen said. "The company expects a strong increase in work completion figures in upcoming weeks, especially in Germany."
52. However, the 3.4 million figure does not include the U.S. or Canada because *all* aspects of a technical fix must be approved by the EPA. The agency signed off on the first software patch in January of this year, but more hardware and software additions will need to get the green light in the coming months.
53. And another issue is showing no signs of going away: VW owners in the European Union have not received any compensation.
54. And another issue is showing no signs of going away: VW owners in the European Union have not received any compensation.
55. "In many of the 26 countries where VW has factories, it has been around long enough to be seen as a domestic firm, so protectionists usually leave it alone." (2012)
56. VW 18% of China, the world's largest car market (after "betting" on China 30 years ago). 2m vehicles a year. VW group's share of Chinese ventures profits rose from 1.9 Billion Euros in 2010 to 2.6B in 2011.
57. 22% market share in Brazil, 9% in Russia, <5% in India
58. "Procter & Gamble, which is to toiletries what VW is to cars, stumbled after "taking on every competitor in every category in every region of the world at once," as an analyst put it in *The Economist* last week. That seems to be what VW is doing now."
59. (Nov 2016) "It is also among the largest car companies in China, and often shares the top spot with General Motors Co. (NYSE: GM). China is the world's largest car market, and of the 88 million cars sold worldwide last year, roughly a quarter were sold in the People's Republic. The only large market in which VW is weak is the United States, where it trails all the largest manufacturers by a wide margin."
60. Chinese lawmakers insisted that brands start joint ventures with Chinese businesses:
61. 1984, Oct 10: Contract setting up Shanghai-Volkswagen joint venture was signed.
62. 1985, Sept 1: production starts for Shanghai Volkswagen Auto co., Ltd.
63. 1992: 100,000th Santana produced
64. 1995: 500,000th Santana, Santana 2000 released
65. 2002: Annual sales 300k+, extended contract 20 years
66. 2009: locally built Skoda Superb was released, 5 million cars made
67. 2012: two new plants started construction

68. 2013: 9 million cars made, new plant started construction
69. VW started a massive push in China, investing around 6 Billion Euros there from 2003-2008 and doubling up its production there.
70. China buys more VW cars than all of western Europe, and accounts for over a 3rd of their sales
71. Chinese VW workers reported back that they needed a low cost SUV to tap into a potential new market there. It was never produced and once the Chinese SUV market exploded in 2015, they were underrepresented.
72. There was a 2015 downturn in all chinese car types except SUVs
73. "In 2014, Volkswagen's China-based marketers identified a clear and present danger to Volkswagen's near-hegemony in China: Indigenous Chinese carmakers such as Great Wall and Changan begun gaining traction with decent-looking SUVs and CUVs at attractive prices between \$10,000 and \$20,000. Volkswagen's Tiguan SUV starts in China at around \$30,000, and goes up to \$45,000."
74. For long, Chinese cars seemed to have an even worse reputation in China than overseas. In 2014, nearly 8 out of 10 sedans sold in China were foreign-made. The SUV craze reversed that trend. Now, every second SUV bought in China has a Chinese brand.
75. Every 5 years, the Chinese govt produces a 5-year plan (FYP), the 13th of which just was released in March of 2016
76. There are 5 main tenets of the 13th 5-year plan:
  1. Innovation
  2. Openness
  3. Green development
  4. Coordination
  5. Inclusive development
77. There is a focus on continued economic growth through consumer-led changes, including a "negative list" approach to foreign investments (the govt only maintains a few industries with policy, otherwise allowing foreign interests to invest. Talks are still ongoing but it's moving in that direction)
78. This contradicts the focus on protecting domestic companies as well. The outlook is unsure for foreign investors with the govt focusing on how all policies will focus on enhancing China first and foremost.
79. Corporate culture under Martin Winterkorn: demanding boss who hated failure
80. Former executives described his management style as authoritarian and aimed at fostering a climate of fear
81. Winterkorn's leadership was in concert with the company's overall management, which is described as "confident, cutthroat, and insular." Starting at the top, such corporate environments may have been enabled such a massive breach of ethics
82. Winterkorn also set ambitious goals for public growth. Including that of becoming the world's largest carmaker. He aimed to do this by breaking into the U.S. market in a big way: The company sold 5.04 million cars in the first half of 2015, thereby briefly holding the title

83. A previous VW chief in the United States, Jonathan Browning, was fired in 2013 for failing to meet aggressive sales targets
84. Under Browning's tenure, Winterkorn blamed U.S. management for a series of problems ranging from a failure to update the Passat model to seemingly prosaic matters such as paint.
85. On one U.S. test drive in July 2013, Winterkorn spotted a slight bump in the paintwork of a Beetle model. The paint thickness exceeded company standards by less than a millimeter, but Winterkorn still lectured engineers about the waste.
86. But achieving Winterkorn's goal at all costs had a big price, which eventually included a notice of violation from the Environmental Protection Agency, a criminal investigation by the U.S. Department of Justice and dozens of class-action lawsuits against VW.
87. A culture that discourages open dialogue and limits checks and balances can prompt cheating and fraud.
88. With its senior management dominated by male German engineers, VW likely suffered from the drawbacks of "group-think" in the course of deciding to engage in that massive cover-up.
89. A family-controlled company with a fractious and unfocused Board, it was accountable to no one, except perhaps its trade unions.
90. They were operating under a regime of rewards and punishments
91. Under the despotic regime of Volkswagen sales chief Christian Klingler, a young Austrian upstart who drew his power from having married into the Piech family, and who was quietly disposed of in the course of dieselgate, managers abroad had to sell, and suggestions of what to produce were not welcome. Klingler's favorite line, I am told, was "We need to prod the pigs in production," but he hated to be prodded. Suggested changes to the model policy were seen as excuses for failure, and firings followed. Soon, the suggestions stopped.
92. In Nov. they fired a historian who shed light on the group's Nazi past and claimed they did not act illegally according to EU law.
93. Mission Statement (2015): "The Group's goal is to offer attractive, safe and environmentally sound vehicles which can compete in an increasingly tough market and set world standards in their respective class."
94. Vision Statement: "Focus on positioning the Volkswagen Group as a global economic and environmental leader among automobile manufacturers. Volkswagen's four goals that are intended to make Volkswagen the most successful, fascinating and sustainable automaker in the world by 2018."
95. Then there were only a few days of calm before the next controversy struck: the unexpected departure of VW's compliance chief, Christine Hohmann-Dennhardt. (shortly after the scandal)
96. The firm had appointed Hohmann-Dennhardt to the management Board only a year ago, and she was tasked with repairing the auto giant's image and reshaping its corporate culture in the wake of the emissions scandal.
97. Volkswagen AG has agreed with the U.S. government to resolve criminal and federal environmental and other civil claims against the company relating to the diesel matter. As part of the resolution, Volkswagen has agreed to pay penalties and fines totaling \$4.3 billion and to a series of measures to further strengthen its compliance and control systems, including the appointment of an independent monitor for a period of three years.

98. Matthias Müller, Chief Executive of Volkswagen Group, said: “Volkswagen deeply regrets the behavior that gave rise to the diesel crisis. Since all of this came to light, we have worked tirelessly to make things right for our affected customers and have already achieved some progress on this path. The agreements that we have reached with the U.S. government reflect our determination to address misconduct that went against all of the values Volkswagen holds so dear. They are an important step forward for our company and all our employees.”
99. CEOs can be viewed as “arrow managers.” They inappropriately assume that words are containers of meaning and assume that receivers are passive information processors.
100. In September of 2015, the Environmental Protection Agency found that many VW cars being sold in America had a “defeat device” in diesel engines that were able to detect when they were being tested
101. The EPA’s findings cover 482,000 cars in the US, which included the VW-manufactured Audi A3, and Jetta, Beetle, Golf, and Passat
102. VW also admitted that 11 million cars worldwide (and 8 million in Europe) have this software
103. When the cars were operating under controlled laboratory conditions - which typically involve putting them on a stationary test rig - the device appears to have put the vehicle into a sort of safety mode in which the engine ran below normal power and performance. Once on the road, the engines switched out of this test mode.
104. The result of this was that these engines emitted nitrogen oxide pollutants up to 40 times above what is allowed in the United States
105. The EPA had the capability to fine the company up to \$37,500 for each vehicle that breached standards
106. What started in the US has spread to a growing number of countries. The UK, Italy, France, South Korea, Canada and, of course, Germany, have opened investigations. Throughout the world, politicians, regulators and environmental groups are questioning the legitimacy of VW's emissions testing.
107. VW will recall 8.5 million cars in Europe, including 2.4 million in Germany and 1.2 million in the UK, and 500,000 in the US as a result of the emissions scandal.
108. Volkswagen sales in the United States were initially slower than in other parts of the world, due to the car’s historic Nazi connections as well as its small size and unusual rounded shape.
109. In 1959, the advertising agency Doyle Dane Bernbach launched a landmark campaign, dubbing the car the “Beetle” and spinning its diminutive size as a distinct advantage to consumers.
110. In 1960, the German government sold 60 percent of Volkswagen’s stock to the public, effectively denationalizing it.
111. Twelve years later, the Beetle surpassed the long standing worldwide production record of 15 million vehicles, set by Ford Motor Company’s legendary Model T between 1908 and 1927.
112. Because Beetle’s design stayed relatively unchanged since 1935, sales grew very slowly in the early 1970s.
113. VW bounced back with the introduction of sportier models such as the Rabbit and later, the Golf. In 1998, the company began selling the highly touted “New Beetle” while still continuing production of its predecessor.

114. After nearly 70 years and more than 21 million units produced, the last original Beetle rolled off the line in Puebla, Mexico, on July 30, 2003.
115. Volkswagen is the largest car maker in the world, after Toyota.
116. They employ 590,000 employees and make almost 41,000 vehicles daily (2015)
117. They currently own 12 subsidiaries: include Audi, SEAT, Skoda, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Scania, and MAN
118. 2005: Porsche increases its 5% stake in Volkswagen to 20%. At the same time, the European Commission takes Germany to the European Court of Justice, claiming that the "Volkswagen Law", which prevents any shareholder in Volkswagen from having more than 20% of the voting rights in the firm is illegally restricting the flow of capital in Europe.
119. 2007: Porsche increases its stake in VW to 30.9%.
120. 2008: Porsche fails in its attempt to acquire the much larger VW, leaving Porsche itself on the edge of bankruptcy.
121. 2012: VW's Audi subsidiary buys the Italian motorbike maker, Ducatti.
122. 2012: Years of wrangling between the two firms comes to an end when VW bought the remaining half of Porsche's car making operations.
123. Porsche's chairman, Wolfgang Porsche, has ultimately been thwarted by his older cousin, Ferdinand Piech, who is VW's chairman.
124. 2013: Germany wins its court battle with the EU over VW, after rewriting the Volkswagen Law. Under this revised law, for important decisions an 80% majority of all shareholders will be needed.
125. 2014: Volkswagen is one of the biggest firms in the world. It has factories in 31 countries, and its products are sold in 153 countries across the globe.
126. 2015: The company admits cheating emissions tests in the US. According to the Environmental Protection Agency (EPA), some cars sold in America had devices in diesel engines that could detect when they were being tested, changing the performance accordingly to improve results.

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