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How can Volkswagen lose its competitive edge? Evaluate the strategies they could employ to regain their former position.

Nuffield Economics & Business AS level portfolio

In this coursework I'm going to investigate competitive edge and how this can improve a Business and its financial situation. The company I'm going to assess is Volkswagen, who recently came across a slump in their financial situation and who are also beginning to loose their competitive edge.

Volkswagen's relationship with the UK dates back to 1952, when the first two Beetles were sold. In 1953 Volkswagen Motors Ltd became the official UK importer, and the brand went from strength to strength.

Today Volkswagen UK, as part of the Volkswagen Group, is one of the country's largest importers of vehicles, employing nearly 600 people nationwide, with the Volkswagen brand employing 174 in Blakelands alone. Volkswagen also has 260 retailers throughout the UK.

Financial situation

Volkswagens general out look makes it seem like a very financially stable and innovative company. However from inspecting their 2005 Annual report these innovative ideas don't seem to be enough. The increased prices of raw material and steel have been a set back for Volkswagen. Their range of cars have become similar to that of other large European automakers and in North America, VW faces an unexpected challenge to maintain its relevance. After rising significantly between 1998 and 2001, Volkswagens sales began to fall sharply, leading to a huge 2005 loss of around \$1 billion for its operations in the U.S. and Canada.

The reliability of the company's cars appears to take some of the responsibility for its huge slump. By 2005, its models sat near the bottom of Consumer Reports reliability ratings, and VW were ranked 35th out of 37 brands in its initial quality survey.

Innovation is however said to be the core focus of the 2005 annual report, improvements to things like engine design concepts and attractive new interior are just a few innovative ideas VW are aiming to include in their new schemes.

Innovation

The Automotive business face's considerable pressure, seeking both growth and cost reduction's to give their companies a more profitable competitive edge. The Automotive industry is ever changing, as the average consumer wants so much more then "just a car". An increased number of innovative vehicle ideas are consistently being introduced aiming to improve safety, economy, performance and quality. All of these points need to be taking into consideration when designing a car, however whilst maintaining these areas of innovation, Volkswagen need to be aware of other innovative areas.

To meet the pressures of this ever changing business Volkswagen will need to have intelligent new innovative ideas.

According to analysis 90% of all future innovations in automotive vehicles will be electronically related. There is no avoiding innovation is a huge part of a companies development however innovation in the sense of new interior and expensive wheels are a thing of the past. I believe new complexities in the form of electronic content should be Volkswagens main goal in innovation. For example built in satellite navigation could be a huge plus for customers and could be the difference between “yes” and “no”.

Consumers are becoming ever more difficult to lure into buying and along with innovative new ideas they need to increase reassurance amongst many. Volkswagen need to increase focus on the customer. In order to do this they will need to improve service processes and will need provide service beyond the every day automotive company. Volkswagen can achieve this by increasing manufacturing speed, customer

Differentiation strategies and consumer needs

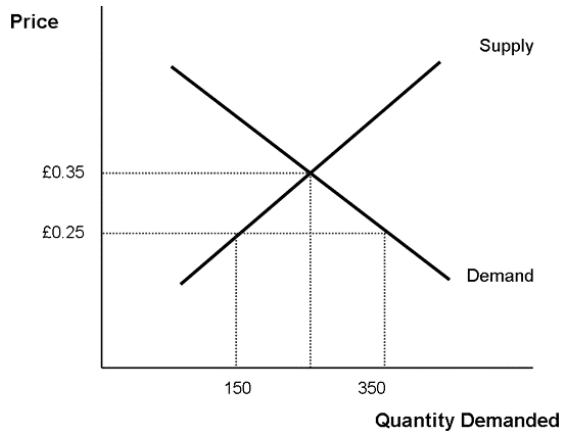
Differentiation strategies will need to be taking into account when looking to increase competitive advantage. The idea of this is to get one or two criteria used by buyers in a market and position the business around it. Consumers are becoming ever more difficult to lure into buying and along with innovative new ideas they need to increase reassurance amongst many. Volkswagen need to increase focus on the customer. In order to do this they will need to improve service processes and will need provide service beyond the every day automotive company.

For Volkswagen to achieve differentiation and improve consumer needs in their business they will need to do some sort of survey asking questions about what kind of things people want in their car. Safety is still the primary attribute of satisfaction across almost all vehicle categories. The only two car categories in which safety wasn't ranked number one were minivans ("quietness" topped the list) and entry-level SUV's (exterior appearance came in first). Women value safety more than men do (77.8 percent of women vs. 65.3 percent of men ranked safety ahead of styling). Vehicle performance for example speed handling and acceleration was slightly more important to women than to men (92.6 percent of women vs. 91.3 percent of men). Less surprisingly, women feel strongly about how their cars affect the environment. According to the survey, 82 percent of women think that environmentally friendly vehicles are "extremely important" "or somewhat important" compared to 72.3 percent of men.

For Volkswagen to achieve Differentiation they will need to take into consideration all of these points, and try to shape their business or product around these criteria's.

Supply and Demand

Supply and demand simply states that the higher the demand the lower the price as shown in the diagrams. In theory every business needs to have a solid supply and demand concept to achieve profit and gain customers. Large business's key objectives tend to be to make a profit. However it has to achieve this without costing the individual customer too much money. This is where the concept of supply and demand comes in. When using the supply and demand concept Volkswagen need to take into consideration the pricing of their vehicles, the business cannot price their products too high, as this will just turn the average person away, allowing them to resort to main competitors. At the same time they need to be careful not to price their goods too low as this will result in low profit.



Advertisement

Advertisement is a huge advantage when it comes to competitive edge. With the right advertisement business's can develop and increase the consumption of a certain product. The use of the media, word of mouth and other forms of advertisement can all expose the unique selling points of a company. For Volks wagen to expose the true benefits of advertisement they will need to concentrate on internet advertisement as this is the future. The use of email and pop up advertisement is the way forward for volkswagen.

Product life cycle

Product lifecycle is the theory of the development. After a period of time the product in hand will be launched into a market it gains more and more customers as it grows; eventually the market stabilises and the product becomes mature; then after a period of time the product is overtaken by development and the introduction of superior competitors, it goes into decline and is eventually withdrawn.

