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Analysis of Overseas Management Strategy of the Volkswagen Group

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ABSTRACT
The performance of multinational organizations is based on their strategic objectives. Global dynamics and trends prompt companies to develop effective expansion approaches to other countries. The achievement of these strategies is evaluated by several aspects, including the financial indicators. Currently, companies are severely affected by the COVID-19 pandemic and have been prompted to respond through diversification, research, and innovation. This research uses the case study approach, which has gained a reputation for examining real-world issues. The focus of the case study is Volkswagen Group, a German automobile company. The case study involves qualitative and quantitative data obtained online from its annual report and news. This case study aimed at evaluating the overseas management strategy of Volkswagen Group, including the firm's overall trend, performance and strategy, and financial objectives and performance. This paper aims to understand how Volkswagen Group has maintained its competitiveness and met its financial goals. Volkswagen Group's competitiveness is based on its strategy, including sustainability, research, and development. Its effectiveness is reflected in increasing revenue and market share. Although the company was affected by the COVID-19 pandemic, it has bounced back due to the high demand for luxury vehicles. Future research should evaluate other aspects of the firm's competitiveness, including marketing and innovation in depth.

Keywords: *Volkswagen Group, financial objectives, COVID-19 pandemic, key performance indicators (KPIs), and competitiveness*

1. INTRODUCTION

Multinational enterprises (MNEs) in global economics are considered as the primary nodes that joined in the sophisticated network. According to Dumitrescu and Scalera [4], the success of the MNEs in the dynamic development pattern is characterized by various risks. Companies are experiencing these challenges as they establish their subsidiaries in other countries. Besides, MNEs face several restrictions in their expansion strategies, including competition laws, environmental regulations, and the region's particular rules. Notably, MNEs play a crucial responsibility in shaping the world's economy. In 2016, for instance, the multinational corporations (MNCs) in the US constituted approximately 26% of the gross domestic product in the private sector and 26% of the employee compensation. These companies' success depends on external environmental factors, including social, political, and economical. For instance, several companies have been severely impacted by the COVID-19 pandemic, which result in losses.

This case study involves the overseas management strategy of Volkswagen Group, which is headquartered in Germany. The study is important in establishing how the company maintains its competitive advantage in other countries, including the United States. Three aspects, including the overall trend, performance and strategy during the pandemic, and financial objectives and performance, are evaluated, which are of significance in understanding how the Volkswagen Group meets its strategic goals. Notably, these aspects are examined through the company's financial data.

2. OVERVIEW OF THE GROUP

Volkswagen Group is a German automobile company. Since its inception in 1937 to make civilian car, the company has grown to a global brand with manufacturing plants in America, Africa, and Asia countries. Volkswagen AG has 12 brands, including Audi, Bentley, and Lamborghini. The firm also provides financial services, including customer financing, insurance, leasing, and fleet management. From the

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2019 annual report, it can be seen that the company has delivered more than 10 million vehicles to customers globally, exceeding the 2018 figure by 1.3%. Another increase was the number of employees in 2019 by 1.8% compared to 2018. Financially, the company generated total revenue of €252.6 billion, increasing from 2018 by 7.1%. The overall operating profit in 2019 was €19.3 billion. Sustainability in the company's growth and development strategy is reflected in the Together Strategy 2025, for the purpose of making the company lead in sustainability mobility. Further, the firm aims to launch at least 30 fully electric vehicles and expand its autonomous driving and battery technology.

3. OBJECTIVE AND METHODOLOGY

This case study focuses on evaluating the overseas strategy of Volkswagen AG in other countries. Volkswagen AG has faced several scandals, such as violating the Clean Air Act in 2015, which affected its growth and development. Painter and Martins described that the organizational crisis and damaged limitations resulted from the 2015, discovering about the diesel emissions software's cheat technology [9], which was the foundation of the company's future strategy to restore its image and reputation. Another key foundation is the company's success in other countries. Cutcher-Gershenfeld, Brooks, and Mulloy argue that the US automobile sector has been revitalized recently through innovation, quality, and the relationship between labor and management [3]. In addition, this case study further aims at evaluating the company's performance and response to the COVID-19 pandemic, which will help determine the company's improvement strategies to promote its competitive advantages.

This analysis uses the method of case study. According to Harrison et al. [6], the methodology has gained a reputation for its effectiveness in evaluating complex real-world issues, which is used in various disciplines, including health, education, law, and social sciences. As a unit, Volkswagen AG is evaluated based on its overseas management strategy in the US and amid the COVID-19 pandemic. The data for the study is obtained from online sources and the company's report, and both the qualitative and quantitative data are obtained. Qualitative data entails textual information, such as the 2025 sustainability strategy; while quantitative data involve numerical data, including trends and statistics. The analysis will be focused on economic models and other aspects of the evaluation will include the organization's overall trend, discussion about whether the management economics concept is aligned with the current strategic objectives, as well as the analysis of its financial report. Table 1 below demonstrates the key figures and differences between 2018 and 2019.

Table 1 Key Figures and Differences Between 2018 and 2019 [1]

Category	2019	2018
Vehicles sales (in thousands)	10,956	10,900
Sales revenue (€ million)	252,632	235,849
Earnings before tax	18,356	15643
Net income for fiscal year	4,958	4,620
Net cash flow	10,835	-306

4. ANALYSIS AND DISCUSSION

The analysis is based on four core sections, including the overall trend of the industry in relation to the COVID-19 pandemic, the annual report strategy on the epidemic situation, and whether the organization's strategic objectives are aligned with the present business goals. The financial report is also evaluated and the analysis is based on management economic concepts.

4.1. Overall Big Trend of the Company

Volkswagen AG's trend in 2020 has been characterized by a reduction in profit, especially in the first two quarters. In the third quarter, the company reported a bounce back to profit. According to Reuters [12], the restored profits can be attributed to increased demand for luxury vehicles, including Audi and Porsche in China and Western Europe. However, the COVID-19 pandemic remains a significant challenge, as the company's chief financial officer Frank Witter noted. In a company statement, the 2020 full-year profit will be much lower compared to 2019. The margin will remain in positive territory. The second-quarter loss was 1.7 billion Euros. The company's bouncing back to profit was related to the cost reduction measures launched early this year, which helped the third quarter. The return to profit in the third quarter aided in addressing the 1.1% reduction in the total deliveries due to COVID-19.

The COVID-19 pandemic significantly impacted Volkswagen Group brands and businesses during the first half of 2020. The company was then prompted to develop mitigation strategies, such as cost reduction and safeguarding liquidity. The company resolved to produce vehicles according to customer demand and preferences [14]. This promoted company inventory management, which reduced the company's capital. Frank Witter, the CFO and information technology (IT)

head and Board of Management member, noted that COVID-19 significantly affected the firm's performance in its history. Apart from its reduced financial performance, Volkswagen AG is concerned about its customers, employees, and business partners' health. Therefore it developed a safe working environment. The impacts of the COVID-19 pandemic made the company report a reduction in the year-on-year profit by 27.4% to 5.4 million vehicles.

As described in the company's news of July 2020, the group sales revenue decreased by 23.2%, implying €96.1 billion. The deliveries decreased by 27.4%, year-on-year at 5.4 million vehicles. The net liquidity in the automotive sector increased by €0.9 billion to €18.7 billion. The capital base was strengthened by placing the hybrid notes. The earnings before tax reduced by 1.4%, approximately €9.6 billion. COVID-19 was a significant hit to most organizations as it halted the products' production and distribution due to lockdowns. In the automotive sector, the pandemic containment measures significantly affected the profits and sales in the first and second quarters of 2020 [13]. Unlike in 2019, where the company registered an increase in the total revenue, the 2020 projection and outlook cannot be achieved despite the cost reduction measures and the bouncing back to profit in the third quarter.

4.2. Strategy of the Annual Report under the Epidemic Situation

Volkswagen Group maintains its commitment to the 2025 strategy for sustainability. The interest in the company's global expansion is marred by various issues presently, which include the second wave of COVID-19 pandemic, the US elections, and the messy Brexit. In response to the dynamics and influence of information and communication technology (ICT) in global trends, Volkswagen Group has moved its operations online. Transition to digital platforms is for enabling the customers to purchase the vehicles regardless of their location. Digitizing the services and sales aims to promote flexibility among the customers to buy products and services at the individual's convenience and comfort [2]. The online approach of selling its products is among the response strategies besides reducing the costs of operations.

In Europe, the car registrations have reduced this year, implying a relapse in the sales after a gain in September [11]. The COVID-19 pandemic has adversely affected operations and demand. The recovery from the pandemic will depend on the key economies. Volkswagen Group has, therefore, pressed ahead with vast investment in new technologies. Herbert Diess notes that companies not developing fast or changing their strategies will be unlikely to survive the pandemic, a significant challenge that humanity has ever faced. Bouncing back to profit in the third quarter echoes Volkswagen Group's peers' results, including Tesla Inc., Daimler, and Ford Motor Company. Therefore, the organization's management and leadership are tasked with developing software for vehicles in the next generation. A key factor is that the company will not compromise its roadmap amid the COVID-19 effects.

Volkswagen Group was not prepared for the COVID-19 pandemic, similar to other companies. As described in the Annual Report of 2019, the firm's technological and social upheaval is reflected in the financial market as the primary indicator. Investing vast resources in manufacturing the current and future vehicles is Volkswagen Group's main strategy. Innovation in the company is achieved by bringing together more than 3,000 experts in IT, a number expected to increase to 10,000 by 2025. The company has also demonstrated its commitment to the Paris Agreement and aims at reducing the carbon IV oxide emissions by 30% [1]. Volkswagen Group is investing vast resources in developing its brands, which is the foundation for its growth and development. As described in the Annual Report of 2019, the company plans to invest more than €60 billion for future relevant topics. €33 billion is earmarked for the e-mobility, while digitalization has been allocated for more than €14 billion. In response to the COVID-19 pandemic, the company has focused on reducing operating costs and developing products according to the customers' demand.

4.3. Evaluation of Company's Strategic Objectives in Line with the Current Objectives

There are four objectives for Volkswagen Group's business, including exited customers, environment role model, excellent employer, and competitive profitability. These objectives can be explained from managerial economics, emphasizing the organizational approach to a business problem, and making informed decisions [10]. There are five key managerial economics areas, including forecasting and demand analysis, analyzing production cost, pricing decisions, capital management, and profit management. In Volkswagen Group's key performance indicators, one of the dimensions is competitive profitability. As described in the Annual Report 2019, the company believes that the investors judge it according to the ability to meet its obligations regardless of the debt repayments and interest payments. In the Volkswagen Group case, its competitive profitability can be explained from the forecasting and demand analysis context. Table 2 below shows the forecast for 2025.

Table 2 Strategic KPIs: Competitive Profitability [1]

Category	2015	2025
Operating return on sales	6.0%	7-8 %
Research and development ratio (R&D ration) in the Automotive Division	7.4%	Approximately 6%
Capex/sales revenue in the automotive division	6.9%	Approximately 6%
Net cash flow in the automotive division	€8,887 million	>€10 billion
Payout ratio	negative	≥30%
Net liquidity in the automotive division	€24,522 million, 11.5%	Approximately 10% of consolidated sales revenue.
Return on investment (ROI) in the Automotive Division	Approximately 0.2%	>14%

Volkswagen Group's strategic objectives are aligned with the short and long-term goals. The nine KPIs are obtained from the strategic goals. They include sales revenue, deliveries to the customers, operating result, research and development (R&D), sales revenue, net cash flow, net liquidity, and return on investment (ROI). Delivery to the clients is described by handing over the vehicles to the customer, which determines the company's competitive position in various markets. A fundamental pre-requisite of Volkswagen Group's long-term objective and success is the remarkable brand portfolio and quality. In the administrative decision-making process, it is dependent on evaluating demand. In the Volkswagen Group case, except for the tailor-made mobility vehicles, the demand is also characterized by developing vehicles that meet the diverse customer demands. Using the theory of demand, Volkswagen considers the individual's wants, needs, requirements, and preferences of the consumers to promote the manufacturing process [8]. Such a demand guarantees the utilization of the employees' jobs and production plants.

Another core element in the managerial economics reflected in the Volkswagen Group is the pricing decision. According to Garg [5], costs and pricing are the foundations of the company's income so the informed decisions should be made. The prices are made regarding the market shapes, differential strategies, and forecasting the values through the pricing theory and market structure analysis. Other factors include the cost of production and maximizing the volume of sales. Volkswagen Group's pricing model involves several strategies to provide its services and products with a competitive advantage. Besides, the company also ensures that the vehicle prices are affordable according to the car and target market. The company's product bundled strategy acknowledges several factors, including customer satisfaction and affordability, ensuring clients do not pay high prices.

4.4. Analysis of the Company's Financial Report

Volkswagen Group's financial data is summarized using 2018 and 2019 data in various dimensions, including the total sales revenue and the number of units. Notably, there has been a remarkable improvement from 2018 to 2019. As of December 31, 2019, the company had delivered 10,975,000 units, which was an increase of 1.3% from 2018. The total sales revenue was €252,632 million, an increase of 7.1% from 2018. This demonstrates the effectiveness of the company's strategy. The earnings before taxes were €18,356 at the end of 2019, an increase of 17.3%. After tax, the earnings were €14,029, increasing by 15.4% from 2018 [1].

The figures presented above are indicators of Volkswagen's strategic objectives, categorized into four. Drawing from managerial economics, Volkswagen Group in 2019 aimed at developing products that meet the diverse consumer demands. This depicts the demand analysis where the company's decision-making process is dependent on assessing the demand and producing quality products that suffice the market needs. According to Lavoie [7], the microeconomic theory explains a typical consumer's behavior, guided by income and preferences. Therefore, organizations use this information to develop products that match these needs and individual characteristics.

Volkswagen Group also reports its expenditure, revenue, and assets for accountability and to demonstrate the allocation of resources. As presented in the Annual Report 2019, there are different financial reporting for three categories. FAW-Volkswagen Automotive Company involves the development, production, and sales of passenger cars. SAIC-Volkswagen Automotive Company also develops and produces passenger vars. SAIC-Volkswagen Sales

Company sells these vehicles. The financial reporting for the three ventures is shown in figure 1.

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company[1]	SAIC-Volkswagen Sales Company
2019			
Equity interest in %	40	50	30
Noncurrent assets	12,069	9,355	896
Current assets	11,876	8,251	4,477
of which cash and cash equivalents	5,423	6,513	210
Noncurrent liabilities	1,221	1,130	160
of which financial liabilities[2]	–	–	–
Current liabilities	15,321	11,674	4,665
of which financial liabilities[2]	29	1	–
Net assets	7,403	4,802	548
Sales revenue	44,181	26,922	32,115
Depreciation and amortization	1,825	2,190	21
Interest income	125	53	5
Interest expenses	4	2	–
Earnings before tax from continuing operations	4,775	3,594	659
Income tax expense	1,251	845	166
Earnings after tax from continuing operations	3,524	2,749	493
Earnings after tax from discontinued operations	–	–	–
Other comprehensive income	–49	3	–
Total comprehensive income	3,475	2,752	493
Dividends received[3]	1,332	1,732	153

Figure 1 Summarized Financial Data on Different Ventures [1]

Two core elements in the company's financial aspect are pricing and profit management. Pricing describes the value of product by considering other factors, including market, competitors, and production cost. Profit management involves the use of the company's profits in activities, such as growth and development. For Volkswagen Group, its profits are shared in several activities, including research and development and expansion.

5. Conclusion

Volkswagen Group's strategy is based on research and development and sustainability. The firm's objectives are described in four KPIs, including ensuring excited customers, environment role models, excellent employers, and competitive profitability. The effectiveness of this strategy is reflected in the increased market share and revenue, as demonstrated in the 2019 financial report. Evaluating the 2020 COVID-19, Volkswagen Group was adversely affected, as reflected in reduced revenue in the first and second quarters. The profits bounced back due to the high demand for luxury vehicles in China. Volkswagen can further improve its resources through continuous investment in research and development and developing products to meet customer dynamics and preferences. And it will be achieved through continuous research to understand customer preferences and how they can be met. The firm can also develop effective approaches to penetrate the foreign markets to increase its market share, which will be based on conducting adequate research about the environmental factors affecting the foreign market and how the barriers can be averted. The disadvantages of this research are that it used secondary data and was limited in depth of analysis. Future case studies should focus on obtaining primary information and evaluating other aspects of the company's performance, including marketing, research, and innovation.

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