

Volkswagen: An Investment in the Future

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We could all stand to hear something positive about the automotive industry. Amidst the announcements of plant closings, extended downtime, and expansion plans being put on hold, the supply base should take comfort in the fact that Volkswagen has not altered the trajectory of their plans for the plant they are building in Chattanooga, Tennessee. Despite disappointing sales performance in January (U.S. sales were down about 17% compared to the same time last year), the company is standing by the long-term growth targets it has established.

The Chattanooga plant will not have an immediate impact on the dire situation facing many suppliers, as production is not slated to begin until 2011. Nonetheless, suppliers should welcome this as a long-term investment for the future. Over time, VW is expecting 300,000 units of local production in the United States – a market which the company believes is critical for their growth plans – and sales of 800,000 units.

Suppliers should approach VW with the same level of purpose and dedication that they would afford Toyota. VW has been quietly laying the groundwork to elevate its position and status in the automotive industry, with a stated goal of overtaking Toyota as the world's largest and most successful automaker by 2018. Currently, they hold the number three position worldwide.

The company already has a solid foundation upon which to build so there is no reason to believe they will not achieve the lofty goals they have carefully articulated. Although 2008 was a very difficult year for the industry, VW still made some notable progress in several areas. For example, they were able to increase their market share in Germany (32.9%), Western Europe (20.1%), and the U.S. (2.7%). The VW Group of America's sales performance in the U.S. during 2008 fared better than the overall market, declining around 5% from the previous year. Furthermore, during one of the most difficult years in recent memory for the auto industry, the VW Group overall set a historic new delivery record, delivering 0.6% more vehicles worldwide than they did in 2007.

VW has positioned itself well, as it continues to work toward developing a full portfolio of products to meet the spectrum of customer needs in the varying markets it serves. The company has intensified development activities in vehicle segments where they were absent in the past – this includes a planned electric vehicles they will be designing in conjunction with Toshiba. To complement their growing product lineup, VW has a strong global manufacturing footprint, which will be further underscored with the construction of

the U.S. plant. The company's strategy is to have local production to serve its respective global markets.

VW is proof that there is still hope for the U.S. auto industry – that there are still new investments to be made and that the U.S. market is still critical to the long-term success of any OEM. Suppliers should pursue VW because they will be a key player in the U.S. industry going forward. And, there is something to be said for a company whose U.S. president, in a February 2009 speech, still refers to the car business as “fun.”