



Connecting with Consumers' Souls

An Interview with Gerd H. Klaus, President and CEO, Volkswagen of America, Inc., Auburn Hills, Michigan, and Volkswagen Canada, Inc., Ajax, Ontario



Gerd H. Klaus

EDITORS' NOTE Prior to assuming his present post in 1999, Klaus had been VP in charge of Audi of America since 1992. He previously worked for Mercedes-Benz in Stuttgart, Germany, and Montvale, New Jersey, serving in various capacities, including manager of marketing planning and VP of marketing and corporate development. After completing his undergraduate studies at the University of Freiburg in Germany, Klaus received his Ph.D. in economics from the University of Bonn.

COMPANY BRIEF Respectively based in Auburn Hills, Michigan, and Ajax, Ontario, Volkswagen of America, Inc., and Volkswagen Canada, Inc., are the North American sales arms of Volkswagen AG, Europe's number-one car maker. Through these divisions, the parent company sells both Volkswagen and Audi cars through more than 1,000 dealerships; offers leasing and financing through VW Credit; and imports cars into North America from Germany, Mexico, and Brazil. Based in Wolfsburg, Germany, and traded on the DAX as VOWG.DE, Volkswagen AG reported sales of \$90.6 billion and net income of \$2.97 billion in 2001.

The head of every major automobile company claims that his company is

the best, but Volkswagen truly is a global trademark. What is it that makes the company so successful?

We try not to think about Volkswagen in terms of anyone else, but this is a competitive arena, and we're very happy to at least run with the best. First and foremost, what makes Volkswagen special is the company's DNA, or soul. Volkswagen attracts people who are proud to be different, who don't always follow the mainstream. These are people who love German engineering and love the feeling of the road. And no matter their real age, they're all young at heart. So whether it's a 24-year-old or a 54-year-old in a Jetta, it's the same mindset.

To that end, Volkswagen connected with the soul of these consumers through its "Drivers Wanted" campaign. And positioning the brand in a human, friendly, and approachable way is one of the keys to success. From there, when our products match our customers' DNA, they see and feel it when they drive their cars. In addition, and especially in the United States, there's a great, long-standing love for Volkswagen that dates back to the Beetle. Every baby boomer I've ever met has told me about a Beetle experience he

or she had, so we have an icon that gives us a unique position. In large part, these are the elements that set us apart from the competition.

Despite all of its success, Volkswagen of America nearly left the marketplace entirely in the early 1990s. How has the company managed to reestablish itself?

The early '90s were very tough. In 1993 we were almost gone, having sold fewer than 50,000 Volkswagens and only about 12,000 Audis. We were hanging on by our fingernails. As far as reestablishing ourselves, I'll start with the Audi side. There, we began by sitting down and asking ourselves, "My goodness, what are we doing wrong?" We soon realized that we needed to sharpen our focus and streamline our offerings. We also had to build upon our unique selling proposition, which at that time was Quattro. No other luxury passenger car had all-wheel drive, so we made Quattro our differentiating feature and marketed the heck out of it.

At that point, we took our plan to Germany, asked for a certain amount of investment, and committed to a certain volume. We said, "If we don't meet this agreement, we shouldn't be your guys in





America.” And by making that commitment, delivering the next year, and delivering again, we began to build trust. Our stakeholders kept reinvesting with us, and we were able to launch exciting new products like the Audi A4, A8, and TT. In a nutshell, that’s what got Audi back on track. And it was essentially the same process with Volkswagen – identifying what people wanted, in order to make the brand relevant again. Then, beyond that, our new products such as the New Beetle were breakthroughs, which kept us going and ultimately made us successful once again.

You began at Audi and moved on to Volkswagen of America. What lessons did you learn at Audi that you brought to the greater company?

You learn much in crisis and in pain. So, having been there, I learned quite a lot. Of course, I had previously spent 18 years with Mercedes-Benz, a company that had experienced only cyclical ups and downs, but not the deep valleys and peaks that Audi and Volkswagen went through. More specifically, by going through those valleys, you learn what it takes to lift people up, and you learn that you need to trust. You also learn to face the brutal facts, without losing faith because you can eventually get through the tough patches.

Perhaps more than anything, you learn about teamwork – that you need people to help you carry the load. And at Audi and Volkswagen, we’re very fortunate to have good teams on both sides of the Atlantic. By touching the corporate soul of the company and seeing the tenac-

ity people have to emerge from valleys, you gain a whole new perspective on life and leadership. And when you see the triumph, you also see the relativity of that triumph. Plus, when you struggle, you learn a lesson in humility, which is an important quality for any leader. No mat-

■

**This year,
our fascinating
offerings will be the
Touareg ... and
the Phaeton.**

■

ter how successful you are, you should never let it go to your head. So in general, I think these experiences have given me strength and hopefully made me a decent leader in these times.

How did you reconnect with your dealers after all the problems in the '90s?

To touch the hearts and minds of customers again, we decided it was critical to work with the dealers because they’re really the front line – the interface between the customer and the brand. We said, “You now have to live up to the beauty and excellence of our products and treat customers differently from the

way you have in the past.” That was especially important then and continues to be key now. Getting the dealer body to believe in our future and reinvest in Volkswagen and Audi was vital to winning the consumer over, and continues to be so today.

Along those lines, we also had to tell some of our dealers: “Your facilities are not what they should be. We understand that you haven’t made money for years, but now you’re making money again, and you must reinvest it.” Furthermore, we told them: “Building brick and mortar isn’t enough. Now you also have to lift your standards so that we can achieve excellence together.” That created our Volkswagen “Marketplace” and Audi “Hanger” concepts, which showcase facilities that reflect the beauty of the brands. In the past

three years, Volkswagen and Audi dealers in both the United States and Canada spent \$2 billion of their own money investing in their facilities’ infrastructures. This prepared the organization to give the American and Canadian consumers what they needed, and I hope it will continue to provide the consumers with what they need while preparing us for the even higher demands of the future.

All of this raises an age-old question: What do consumers really want? Recently, you’ve had the answers. So what’s next in 2003?

In the past, many products have helped us to connect with the consumer. Of course, as I mentioned earlier, a major breakthrough was our New Beetle. It was a magnet for our brand because there’s so much emotion in it. It represents a huge reservoir of goodwill from the original Beetle days; and in 1994, when we showed the concept car, people went wild over it. It energized our dealers because it perfectly reflected Volkswagen – not only our past, but also our future – as a very innovative car with modern technology, engineering, and safety features.

From there, it extended beyond the Beetle to our new Jetta and Passat, which suddenly propelled us into the midsize segment as a German alternative to the Japanese midsize cars. In general, our strategy has been to move the brand forward by offering something fascinating in the marketplace. This year, our fascinating offerings will be the Touareg, which we’ll debut in late spring, and the Phaeton, which will come later in the year.

It has been said that the Audi is meant to be driven, but the Phaeton

The Touareg (above) and Phaeton (opposite page)



orbitant. Will Phaeton owners be able to go to any Volkswagen dealer for repairs, parts, and so forth?

Yes. We have 650 Volkswagen dealers throughout the nation, and we're going to roll out the Phaeton gradually. That way, we can make sure the first, say, 200 dealers can live up to all our technical and service standards. They'll be connected to our service databases, both in Michigan and in Germany, and will receive all the necessary training. As I said, we're holding our dealers to certain standards of excellence, and if they meet those standards, they get the car; it's that simple.

Volkswagen's first SUV, the Tourag, also represents a breakthrough.

Yes, it's a big step. Light trucks are a huge market segment, and up until now, Volkswagen basically hasn't participated in it. Now, we're bringing the SUV into that arena, so we're coming a bit late to the party, but we're certainly coming with a wonderful guest. Furthermore, the

party is still rocking and rolling, so we think they will be very well received.

Ultimately, the key people in any company are the employees. Perhaps keeping them motivated isn't too difficult if they love cars?

I wish it were that easy. Of course, a car company is a beautiful thing because its products elicit a lot of emotion. But keeping people motivated, especially during hard times, is a challenge. I personally believe that during tough times, you sometimes have to slay dragons. In other words, you have to convince the team that we have to do something for our immediate survival. But your vision must take people past this stage. If people hear your vision, understand what they need to do, and see real light at the end of the tunnel, they'll usually go with you.

However, you can't always be killing dragons because you might burn people out and create corrosive energy. You have to show people the path to the princess – the ultimate enlightened vision, where the beauty of the cars, the splendor of success, the belief in the dream, and commitment to the vision all come together. At Volkswagen, we have a vision – a rainbow at the end of an autobahn. In fact, you can't work for our company if you don't understand this vision. Our people all believe in it, and I tell them all the time where we are on the way to the rainbow. That creates a spirit of openness, drive, and emotion, because Volkswagen and Audi, I hope, will always be emotional brands. ●

is meant to be driven in. Does this represent an important breakthrough for Volkswagen?

Yes. With the Phaeton, we're in new territory, at a higher price point than ever before, and some people have been skeptical. Up until now, our consumers have gone from Golfs to Beetles to Jettas to Passats. So why shouldn't we give those who love our DNA another place to go – a flagship luxury car that represents the ultimate in German engineering?

Of course, we won't sell the Phaeton in huge quantities; instead, it will probably account for 1 to 2 percent of our overall volume. But we believe that by showcas-

ing a combination of topnotch German engineering and Volkswagen's DNA, we'll appeal to a new market. We believe that if this car is an engineering crown jewel and is serviced and marketed correctly by our dealers, enough people will say: "I'll give this a shot. It's new, it's exciting, and it's awesome." We believe the car will cast a halo over the entire line, pushing Volkswagen to new levels of excellence. Of course, there are many established luxury brands to compete with, but we think we can do it.

With some luxury cars, when you want service, there are few places to go, and the costs can be ex-



New Beetle Convertible (above); and Soft Top New Beetle Cabriolet