

Interview

Cars With Souls

An Interview with Stefan Jacoby,
President and Chief Executive Officer, Volkswagen Group of America, Inc.



Stefan Jacoby

EDITORS' NOTE *The recipient of a master's degree in business administration from the University of Cologne (Germany), Stefan Jacoby began his career with Volkswagen in 1985, and has held senior positions with the company in sales, exports, controlling, and management. From October 2001 to February 2004, Jacoby served as President and CEO of Mitsubishi Motors Europe B.V. headquartered in Amsterdam, and returned to Volkswagen in March 2004 to manage the Group Sales Strategy Department. He was appointed Executive Vice President of Volkswagen AG for the Marketing and Sales Department in 2004, and has held his current post since October 2007.*

COMPANY BRIEF *Founded in 1955, Volkswagen Group of America, Inc. (www.vw.com), is headquartered in Auburn Hills, Michigan, and is a subsidiary of Volkswagen AG, headquartered in Wolfsburg, Germany. Europe's largest automaker, Volkswagen AG manufactures the VW brands (Rabbit, New Beetle, New Beetle convertible, GTI, Jetta, GLI, Passat, Passat wagon, Eos, Touareg, and Phaeton), as well as Audi, Bentley, Lamborghini, Seat, Skoda, and Bugatti, at plants throughout Europe, Africa, the Americas, and Asia Pacific. It also owns 34 percent of Scania (a Swedish truck maker) and has a successful financial services subsidiary.*

Volkswagen is evolving a great deal, with new headquarters in Virginia and new

models in the works. Can we expect a complete change from the steady, old-fashioned Volkswagen of before?

Top management and the board of directors had a long discussion about the future of the Volkswagen Group in the United States. We have a growth strategy and we want to be a significant player worldwide. We are very strong in Europe, China, South Africa, and South America, but one of our weakest markets is the United States. We need a better market position in the U.S., and we are of the strong belief that both Volkswagen and Audi have the potential for significant growth. In 2007, we sold 230,000 Volkswagens and 93,000 Audis in the United States, but we could sell far more. Recognizing that we needed to change, vis-à-vis the U.S.'s economic circumstances and U.S. dollar-euro exchange rate, we developed a strategy based on five pillars: our brands, our products, our organization, our dealer bodies, and independence from the U.S. dollar-euro exchange rate.

Why have you decided to move your headquarters?

Thirty-two years ago, we moved from New Jersey to Michigan in order to be among the Big Three carmakers [General Motors, Ford, and Daimler Chrysler]. Today, it's a more global market. In addition to American manufacturers, Japanese, Korean, and German automakers are producing cars in the United States. We wanted to step outside of the shadow of the American automobile industry and move our head office to an environment where our customers are actually driving our cars and where we can begin to implement our strategy. Moving to Virginia is a bold step, but we are very optimistic and will make the move this month. We're also looking for ways to increase our production and manufacturing capabilities in the North American region.

What's new in your product pipeline?

We're on the offensive with products in 2008. Our product strategy is based on four core models, and we'll be the first manufacturer to bring a clean diesel engine to the United States. We want to be strong in significant segments of the automobile industry. We want the Jetta to be stronger in the four-door sedan segment, and we want to be strong in the midsize segment with the Passat, which falls somewhere between high-volume brands and luxury brands. The Jetta and the Passat's main competitors are the Toyota Camry and the Honda Accord, respectively.

In terms of so-called CUVs, or crossover utility vehicles, we are introducing the new Tiguan in 2008, and we're considering launching a larger CUV. We also have the GTI, the Rabbit, the New Beetle, and the New Beetle convertible. We have a complete model range based on our core models. We have a variety of emotional cars that will attract customers to our showrooms. The strength of Volkswagen is that emotion. Each of our models has a soul. Volkswagen cars actually connect people with a machine. They're a lot of fun to drive.

The Volkswagen Phaeton is an emotional car, and it's coming back.

The Phaeton is a very impressive and emotional car. We're relaunching the car and making it even better. We're also thinking of outfitting it with a clean diesel engine. The Phaeton is a top-level luxury car, so those customers may not think as much about fuel prices, but they do think about environmental issues and want to use clean diesel fuel.

The car has an outstanding design, inside and out. It is highly technical, very drivable, and has state-of-the-art power train and climate control systems. It's very up-to-date. I don't think we'll revolutionize the soft design of the car, but we will make some gradual changes and updates.

Will the Phaeton compete with Bentley?

No, I don't think so. There are a lot of beautiful Audi cars between the Phaeton and a Bentley, and there is a significant price gap between a Bentley and the Phaeton. Bentley speaks for itself; with 10,000 luxury cars worldwide, its success is absolutely fantastic.

What is the future of diesel fuel in the United States?

Europeans generally think that the U.S. political system has little interest in environmental change. But having lived here and having learned more about the American people, I can see they have a strong interest in reducing fuel consumption and other environmental issues. I would say that local initiatives in the U.S. are stronger than they are in Europe. Diesel could be a real alternative for reducing fuel consumption and greenhouse gases. It's just a matter of getting this into the minds of the American consumers. Our announcement that we're the first automaker in the United States to sell true clean diesel engines – the most up-to-date, highly developed engines worldwide – has raised a lot of interest with American consumers. Whenever

I'm with the dealers, they tell me consumers are coming to Volkswagen showrooms asking about the diesel engines. Market researchers are saying that the diesel share in the U.S. passenger car market will grow from 3 to 4 percent to up to 20 percent. Of course, competitors like Honda, GM, and Mercedes, will follow us, but we welcome that competition, because we think diesel is a clean and affordable alternative to other fuels and options like the hybrid. Diesel is a real alternative for the American market. It's meeting the toughest American emissions standards.



The all-new Volkswagen Tiguan

Will emissions standards in the United States change?

Absolutely. There's a strong discussion going on and it must be in alignment with what is possible in the automobile industry. Technically, everything is possible. It's a matter of price. In the United States, the automobile represents mobility; there isn't as much public transportation in the United States as there is in other places. People need their cars, and therefore, cars need to be affordable for consumers. That's why we, as the automobile makers, are strongly suggesting that emissions regulations be changed in steps that automakers can handle affordably and pass on to consumers affordably.

Would you say that Volkswagen has an inconsistent brand image in the United States?

I wouldn't say it's inconsistent. Lately, Volkswagen has drifted too much toward becoming a niche brand for many reasons. We launched the GTI very aggressively and our advertising campaigns had a very high awareness. But only 20 percent of polled consumers said they liked the campaign or thought it was cool. Given our strategy to increase our volume to 800,000 Volkswagens in the United States, we need to be more in the hearts of the American consumers. We're coming from that heart, and we want to build a bridge between our origins and our heritage in the United States and our place in American history and culture. We want to connect our image of the Microbus and the old Beetle with the future. We don't want to be the nice old brand that's made out of stone and

unable to move anymore. We want this brand to be for everyone in the future. We'll build this bridge with all of the goods Volkswagen will have in the future, and we want to attract a wider range of consumers. We will launch a new brand strategy and ad campaign next quarter.

As a European working in the United States, what frustrates you the most?

I'm not frustrated. I have worked in many, many countries already. I worked in China and Japan. I worked for a Japanese company in Europe, which was also a significant cultural experience. If you take an assignment like I have

right now, leading Volkswagen in the United States, you cannot be frustrated with the work style, the culture, or the people. My recipe for success is to be aware that we are different, even though we look the same – which makes things more difficult. You might think that, because you look like me, you will think like me. But we are not the same, and that can raise a lot of misunderstandings between cultures. So my golden rule is to be aware of the differences. As a guest in this country, I cannot change 28 million Americans; I have to love being here, and I do. But on the other hand, I will remain a European. I will stay true to my background and where I came from. I like my values. I will not mutate into an American, but rather I will remain true to my European heritage. I've done a good job so far of remaining a German. People who understand this about me appreciate it.

Isn't that what Volkswagen is all about – the German design and engineering?

Exactly. This is exactly what Volkswagen wants to be as well. We never will give up our German heritage or our German engineering skills. Volkswagen will always be Volkswagen. Our cars will always have state-of-the-art technology. Being originally German gives us the potential to be a real alternative to our American, Japanese, and Korean competitors in the United States.

You have a big job.

Don't remind me. I cannot sleep.

Volkswagen looks to you to fulfill many duties. What are your biggest challenges to overcome?

Right now, one challenge is building a skilled team. I want to have as many talented Americans working for Volkswagen as possible. I believe we need a lot of American input to further understand this market here and to do things right here. The second challenge is to translate American consumers' needs for our engineers in Germany. This is the biggest challenge I think I have.

How effective is the communication between Volkswagen headquarters in Germany and Volkswagen in the Americas?

It is, to a certain extent, very difficult to work here and follow up with all of the decisions that are made in Germany. It's very interesting: I worked in the head office for three years and I thought everything was structured and organized. Working in the United States, I have the feeling that nothing is organized and there is no regulatory process. Everything is more or less ad hoc and decided at random by mood or temper. So it's a totally different view. But to be a successful global player, I think you need to have a deep understanding of markets, people, cultures, and competitors. We are producing one product globally – the automobile – but consumers are different in India, China, the United States, and Europe, and that is why we have to develop a better recognition of our products in each of those markets. This is essential to our global strategy, because we really want to further our growth outside of Europe. We won't see much growth in our home market; the growth is in India, China, Russia, and the United States – which is a satisfied market. But we have potential here because we are not meeting our full market potential. So we need a deep understanding of the market, and we need to meet that market's requirements.

You mentioned the launch of a new ad campaign.

Yes, we are going to be introducing a new campaign. It's more than just another ad campaign. It goes much deeper into the soul of Volkswagen, and what the brand means to customers and where we want it to go. It's more than just a slogan; let's put it that way.

The "Das Auto" campaign will provide us with consistent brand positioning globally. It's absolutely necessary. We used to rush from one campaign to another, without developing a long-lasting strategy. I'm a strong believer in consistent marketing messages actually, and we have redefined our image through the "Das Auto" campaign, which talks about the uniqueness and the soul of Volkswagen. It speaks about our engineering, our safety, and our environmental commitments. It's a proud claim, actually. "Das Auto" translates from German to mean "The Car" – to say that Volkswagen is the only car. Our consumers are very much attracted to individualism. They want to express themselves and be different from the mainstream. They are independent and responsible people. For these consumers, "Das Auto" means that a Volkswagen is "The Car" for them. A Volkswagen is made for them; it shows the world what they want to be and what they are now. "Das Auto" expresses that Volkswagen is a brand for individual spirits in the United States. We think it captures the consumer's love of Volkswagen. ●