



**Official name:** *Volkswagen AG*

**Owned by:**

- 31.3% *Porsche Automobil Holding SE*
- 26.3% Foreign institutional investors
- 14.6% *Qatar Holding LLC*
- 11.8% State of Lower Saxony
- 12.9% Private shareholders / others
- 3.1% German institutional investors

**Owns:** • Audi (100%) • Bentley (100%) • Bugatti (100%)  
• Lamborghini (100%) • MAN (29%) • Porsche (100%) • Scania (37.73%) • Seat (100%) • Škoda (100%).

In China, Volkswagen owns 40% of the FAW-Volkswagen Automotive Company, 50% of Shanghai-Volkswagen Automotive Company and 30% of SAIC-Volkswagen Sales Company, the sales division of Shanghai Volkswagen.

Volkswagen used to own 19.9% of Suzuki, but the marriage ended in tears.

**Current situation:** The Volkswagen group is the world's largest carmaker, selling 10.9 million vehicles in 2019. Volkswagen is a major force in China, with a market share of 14.6%, down from 18.5%. Europe is still VW's largest market.

South America is another small but important market.

However, the USA has been a disaster for Volkswagen, with a current market share of about 2% and losses nearing \$1 billion per year.



In addition, the diesel emissions scandal resulted in further multi-billion dollar losses, including about US\$18 billion in penalties and compensation for cheating US government emissions tests.

Volkswagen lost money in 2015, thanks to the emission scandal. However, both sales and profits quickly recovered and grew to record levels in 2019.

VW is extremely vulnerable to further economic downturn, especially in China.

VW is also vulnerable in Europe, where it has sold lots of cars, but often not made much money in the process.

Volkswagen was aware – sort of – of the risks it was taking in expanding so aggressively just prior to the global Covid-19 crisis.

A while ago, Martin Winterkorn, VW's chief executive, said:

“Of the motors driving the global economy — the BRICS [Brazil, Russia, India, China and South Africa] — basically only ‘C’ for China is left standing.”

With the Covid-19 global lockdown, Volkswagen was suddenly left with millions of unsold vehicles and dozens of idle factories around the world. But VW still made a decent profit in 2020, and beyond. So, until the world's economy goes into reverse, VW will be a successful company.

**Chances of survival:** okay.

Volkswagen is too big to be allowed to fall, even if things turn to custard. However, VW is vulnerable in all its major markets, which suggests that the company will be in serious trouble if China goes into decline.



# A brief history of Volkswagen



**G**ERMAN DICTATOR ADOLF HITLER greatly admired Henry Ford. Adolf's dream, like Ford's, was to put a car in every driveway. Hitler's fantasy car had to drive around 100km on seven litres of petrol, it had to cruise at 100km/h and sell for around 990 Deutschmarks, a figure calculated on the average savings of the typical German working man.



The German carmakers thought Hitler's idea was mad. They were also snobs, who disapproved of the idea that ordinary *volk* should be able to travel by car. *Ach du lieber!*



Frustrated with the German carmakers, Hitler called in noted automotive designer Ferdinand Porsche. Porsche shared Hitler's dream of a people's car. In fact, Porsche had been fired by his former bosses at Daimler-Benz for suggesting that they build a small, lightweight, affordable Mercedes-Benz.

But what should the people's car be like? Hitler knew already; in the late 1930s, Hitler drove around neighbouring Czechoslovakia, persuading German-speaking Czechoslovakians that they were part of the German Master Race.

During his travels, Hitler noticed that Czechoslovakia already had a people's car that would suit his purposes rather well: the *Tatra T97*.

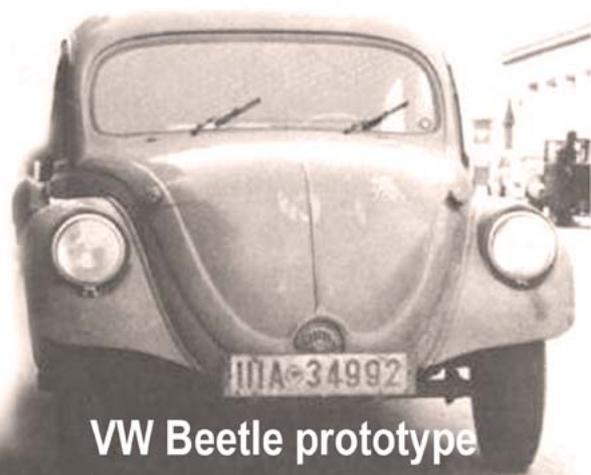




Back in Germany, Hitler's designer – Ferdinand Porsche – made a fairly blatant copy of the T97. Thus, the Tatra T97 morphed into the German's people's car.

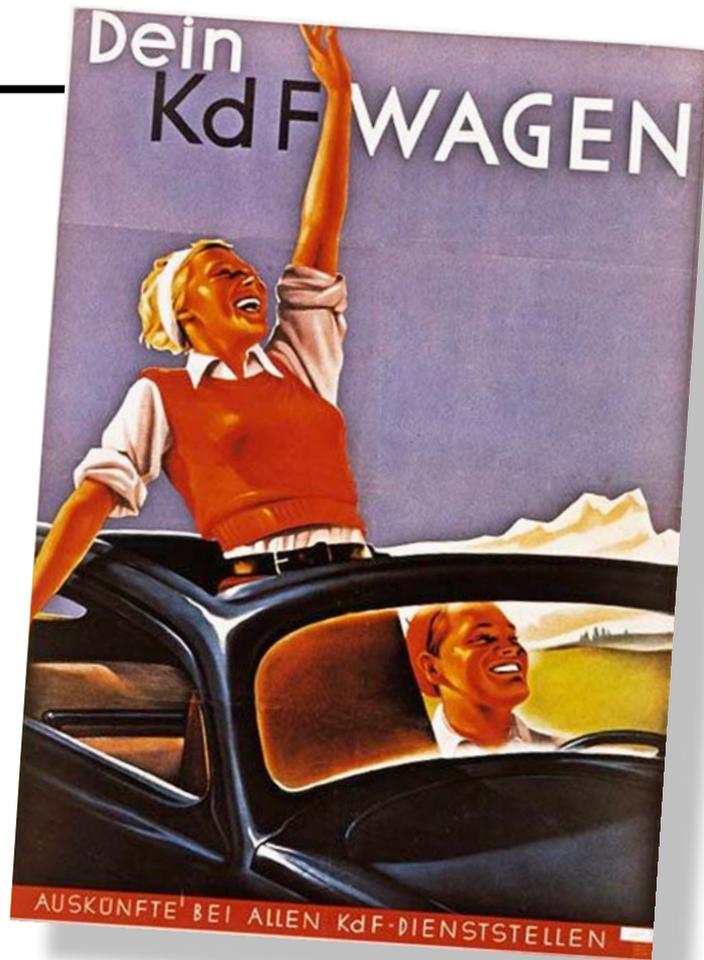


Tatra T97



VW Beetle prototype





The new vehicles were officially called *KdFs*, or *KdF-Wagens*. However, the name *KdF-Wagen* wasn't very catchy; the KdFs were quickly renamed *Volkswagens*, or 'people's cars'.





The German nation looked on in awe, blissfully unaware that the people's car was not quite what it seemed. Although a few Volkswagens were built before the war, not a single vehicle was ever sold to the public. Hitler's KdF organisation took regular payments from millions of Germans, who never saw their money again.





Part of the problem was that the people's car was merely one small part of Hitler's globalisation strategy. The VW Beetle's cute lines and smiling bumper masked its sinister second purpose: carrying invading German troops across the world.

You see, the Volkswagen Beetle was not designed to be just an ordinary car. Hitler's priorities were military; military vehicles didn't need to be fast, silent or comfortable; they needed to be able to cope with battlefields and broken countryside.

In the meantime, Hitler had to deal with some legal problems at home. The VW Beetle's similarity to the Tatra had not gone unnoticed: the Czechoslovakian Tatra car company sued Porsche for pinching its design. Hitler solved this awkward legal problem by invading Czechoslovakia.





Within milliseconds of war being declared, production of Hitler's 'people's car' suddenly halted, replaced by 55,000 *Kubelwagens* and amphibious *Schwimmwagens* – military vehicles based around the Beetle, mostly built by slave labour.



Thus, the Beetle's streamlined body was replaced with a steel box. Not pretty, but practical. With its new skin, the Beetle proved to be an effective troop carrier; it was air-cooled, so ran without water. It had excellent traction in mud and sand. And it could be easily serviced almost anywhere.





But the best laid plans of mice and men often go astray. Hitler's German army, after cutting through Europe like a knife, lost the war, crushed by the combined might of the British Commonwealth, American and Russian armies.



America and England invaded one side of Germany, while Russia invaded the other.



The invading Russians happened to be in the right place at the right time: they pinched all the US\$67million that KdF had gathered from its workers as Volkswagen payments.

The Russians figured that the money amounted to \$3.35 for each of the 20 million of their people who died during World War II.

Not one German worker ever received a car in return for his savings.



After the war, the Americans took reluctant control of the bombed-out Volkswagen factory, then handed the whole factory town over to the British, who helped get it back in operation as a maintenance depot for the British military vehicles.

The British Army also placed an order for 20,000 vehicles to be used by its troops while running post-war Germany.



In 1945, a surviving VW Beetle was shipped to England and displayed to a group of leading British motor manufacturers. The group concluded that the Beetle would be “quite unattractive to the average motorcar buyer.”

“It is too ugly and noisy,” they said, adding: “to build the car commercially would be a completely uneconomic enterprise.”



And they were right. The early Volkswagen models looked good in the publicity shots, but in reality, the Beetle had been put into production long before it was actually finished. Beetles were perched on high, skinny tyres, were chronically underpowered and needed to be hand-cranked on cold mornings. There was no fuel gauge. Beetles had appalling rear vision and were heavily prone to rolling over while cornering. Oh, and the doors blew open if you got too close to a passing bus.



Amazingly, the Beetle's salvation came from the British army officers who were running the factory. They set in place a raft of improvements which paved the way for the later success of the Beetle around the world.



But the British army had no longterm interest in building cars, so Volkswagen was soon returned to the Germans, under the leadership of Heinz Nordhoff.

Describing the early Volkswagen Beetle, Nordhoff stated bluntly:

“It [still] had as many bugs as a dog had fleas.”

But Nordhoff had no option but to work with the Beetle, bugs and all.

Nordhoff eventually added such unheard-of luxuries as two-speed windscreen wipers, easily adjustable front seats, upholstery that didn't scratch you, hydraulic brakes, and a more cheerful exterior.



The slippery synthetic rubber tyres were replaced with actual rubber tyres, and the entire vehicle overhauled to improve handling and reliability. Whew.



And it worked: Beetle production doubled every year for the next three years. By 1950 over 80,000 had been produced.



The VW Beetle may seem quaint these days, but in the early 1950s it was one of the few reliable small cars available in America.





American carmakers didn't do *small*, even for people who *wanted* small. Most American carmakers neither understood nor cared why people would want a small car.

Volkswagen understood.



Thus, the VW Beetle became the surprise hit of the 1950s and early '60s: bit by bit, old ladies, poor university students, librarians and general oddballs adopted the VW Beetle as their car of choice.





By the late 1950s, there was a six month queue to get a Volkswagen Beetle in America.



Volkswagen had other hits too, such as the VW 'Kombi' transporter, which was originally simply a van version of the Beetle.



Little by little, Volkswagen cars were improved, but they weren't improving as fast as the cars built by Volkswagen's rivals.

By the mid 1960s, the Beetle – along with the rest of the VW range – was showing its age.



An attempt to repackage the Beetle in a new form – the *Type III* – was considered a failure despite over two-and-a-half million being sold.



The problem with the Type III was that the designers failed to address the real problems associated with the Beetle. For example, the heater may have been lousy at warming people, but it was excellent at recycling exhaust fumes into the passenger compartment.

When you travelled at speed, conversations became difficult unless you enjoyed shouting.



In 1964, Volkswagen bought *Auto Union* (later to become *Audi*). Although Auto Union factories were put to work assembling Beetles, it was the Audi connection that led to the first real change in the VW range since the 1930s.





The Beetle was eventually killed off in America when the government brought in moderate pollution controls. The VW engines, which had hardly changed since 1934, simply couldn't hack it.

Although the Beetle was still produced in places like Mexico and Brazil until 2003, in the rest of the world Beetles as we knew them ceased to exist in the early 1970s.

By this time, Volkswagen was in serious financial trouble, but was bailed out by the local government.



The 1974 VW Golf (above), which was cloned off the BMC Mini, but built with vastly superior technology, turned the tide. Volkswagen was suddenly modern and successful once more.





The 1980s Volkswagens were very well built and often lasted for a long time.

But Volkswagen wasn't content with being a German carmaker; Volkswagen had global ambitions.



By 1990, Volkswagen and its sister companies (Audi and SEAT) produced 40% of their cars outside of Germany. Impressively, VW sold two thirds of its cars outside Germany. Volkswagen was now a truly global concern.





VW's Shanghai plant produced an older Santana model for the Chinese market. Volkswagen also had huge factories in Mexico, Brazil, South Africa, Nigeria, Poland, Slovenian Republic, Czech Republic, Hungary and others.



But few of these cars were as well built as the ones that came from Germany. Worse, Volkswagen's quality was slipping, even in Germany.



It wasn't that VW couldn't build good cars any more. The problem was: Volkswagen had other priorities. As Japan's car industry grew, so Germany was threatened. Japanese cars weren't just cheap, they were really well built. But they were generally ugly as well, and few Japanese cars handled as well, or felt as good to drive, as their German rivals.



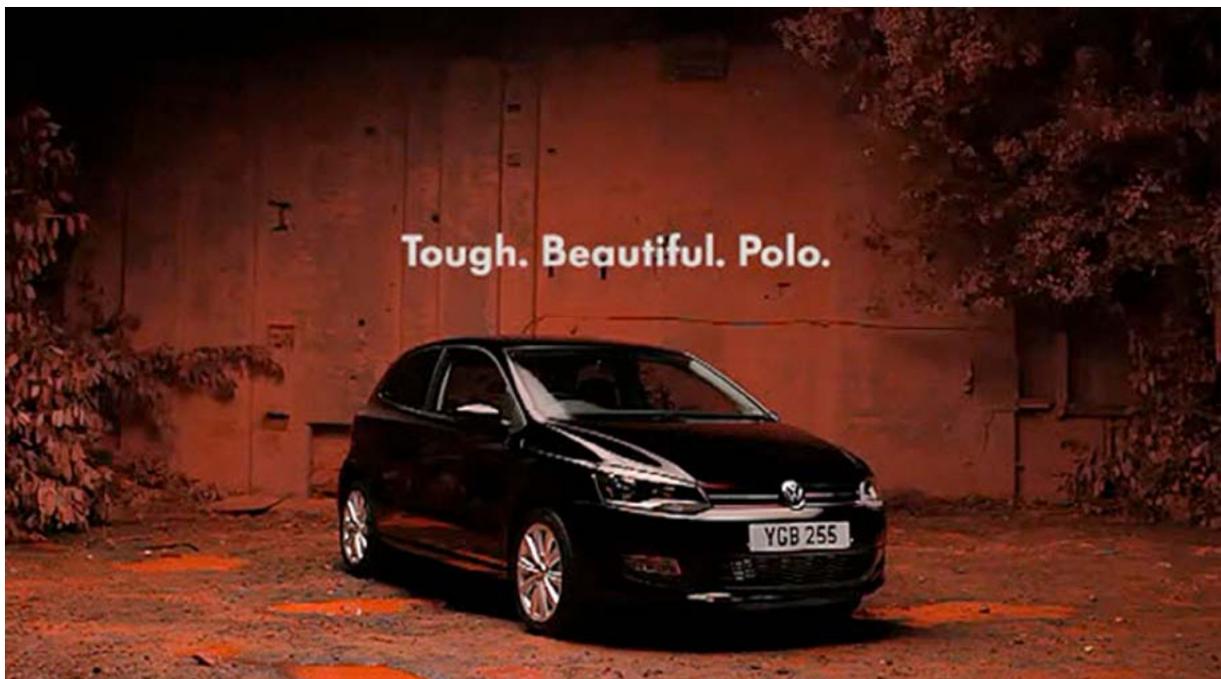
So Volkswagen's bosses said, in effect: "We can't compete with the Japanese on price or quality, so we'll compete on *desirability* instead. We'll produce cars that look stylish, feel good inside, and drive well.

As long as the buyer of a Volkswagen gets 60,000km of reliable motoring, they'll be happy. Most owners will have sold their cars before something major breaks."



Because Volkswagen already had a solid reputation for reliability, it was easy for Volkswagen to maintain the pretence even when it was no longer true.

The VW-friendly motoring press, which often relied on Volkswagen adverts to stay alive, politely looked the other way when survey after survey showed that Volkswagens were often unreliable crap.



Volkswagen was very careful to ensure that the parts of the car that journalists and customers could see and touch, such as the engine covers and dashboards, were superbly assembled with quality plastics. Thus, the journalists, who wanted to believe VW's bullshit, raved about Volkswagen's "legendary build quality".





Most motoring journalists were fooled because they wanted to be fooled. For example, in 2013, Britain's *Auto Express* magazine reported that: "Audi, BMW and VW ranked in the bottom 10 of a study into engine reliability."

Yet, the very same year, Auto Express gave Volkswagen two awards: *Best Convertible* and *Best Pickup*, praising the 2013 VW Beetle for its "premium quality and low running costs".





Through clever production, design and marketing, Volkswagen became a global giant, even threatening Toyota's role as the world's largest carmaker.

As Volkswagen grew, it absorbed many European competitors and filled their cars with Volkswagen parts. Thus, whether you bought an Audi, Bentley, Lamborghini, Seat or Škoda vehicle, chances were that many of their parts came from a Volkswagen factory.





Volkswagen's success did not go unnoticed. In the early 21st century, Porsche, awash with money from its luxury car sales, began buying up shares in Volkswagen.

First Porsche bought 20% of VW, and then it began aggressively pursuing the remainder. The strategy seemed to work: in October of 2008, Porsche announced it had acquired shares and options equal to nearly 75% of Volkswagen's stock. Porsche was now Volkswagen's master.

*Aber nein.* Just as Porsche was moving in for the kill, the 2008 credit crunch hit.

Having paid a reported \$US6 billion for the VW stock, Porsche ran out of money.

Porsche was saved by an emergency loan from Volkswagen.

Thus, the hunter became the hunted.



Now, it was Volkswagen taking over Porsche. In exchange for about US\$4.8 billion, Volkswagen bought a 42% stake in Porsche. As of August 1, 2012, Volkswagen acquired full ownership of Porsche, after paying Porsche shareholders US\$5.61 billion for the remaining 50.1% of shares it didn't already own.



For years, it seemed as if Volkswagen could walk on water. Volkswagen kept aggressively gaining market share around the world, but especially in the developing world – the B.R.I.C.S. (Brazil, Russia, India, China and South Africa).

After the 2008 crash, VW merely transferred its attention to China, again gaining millions of sales.



Even in the USA, which had been a loss-making headache for decades, VW was gaining market share, if not actually making a profit.

The optimists refused to become realists: even after the 2008 banking crisis, which very nearly collapsed the global economy, everything seemed to come right quickly, thanks mainly to China's unprecedented wave of growth.

Like Volkswagen, China also seemed unstoppable, but China was merely the latest and largest player in the deregulated global casino. As long as the market kept growing, no one cared where the money was coming from, or going to.



Over the last 40 years, China's economy expanded at an average rate of 9.5%, making it seem like an unstoppable force. Sadly, the first law of economics is: what goes up, must come down.



And thus it was with the BRICS. In 2014, VW's sales slumped in many emerging markets: sales in Brazil fell by 12%, in Argentina by 39% and in Russia by 12%.



Volkswagen still astounded the world by selling 10.14 million vehicles in 2014, more than any other carmaker. However, this was the peak of a wave; from then onwards, VW's seemingly unstoppable growth came to an abrupt end, on multiple fronts.

In June of 2015, China's sharemarket hiccupped. The Chinese people suddenly realised that their economy was mortal. They suddenly cut back on unnecessary luxury items, such as cars. Volkswagen, once the biggest rising star, shared the pain with the rest of the car companies.



# Drive cleaner.



**Golf BlueMotion. 115 g CO<sub>2</sub>/km.**



Things went from bad to worse. In September 2015, VW was busted for selling 11 million diesel cars globally that had been fitted with software intended to deceive emissions testing. The clean, green VW diesel that powered these vehicles was actually emitting pollutants at up to 40 times the legal limit.

The VW diesel scandal triggered severe legal action, including criminal investigations and massive civil lawsuits on multiple continents.

In 2016, Volkswagen posted a nett loss of €1.58 billion for 2015, compared with a nett profit of €10.85 billion a year earlier.

In the US alone, the emissions scandal cost VW \$18 billion.

It's likely that Volkswagen will abandon the USA entirely: VW's US division had lost billions long before the current crisis hit.



For example, in 2019 it was revealed that most versions of the Golf, VW's most successful car globally, would no longer be sold in the US. American customers prefer Toyota reliability over European style.

China saved Volkswagen. VW is now the largest carmaker in China, with about 14.5% of the world's largest car market. Chinese sales now make up for around 40% of Volkswagen's annual revenue.

As Volkswagen CEO Herbert Diess put it:

“The future of Volkswagen will be decided and determined here in China.”

VW is nothing if not resilient. In 2020, after the shock of the Covid epidemic, Volkswagen's operating profit fell by some 43% from the previous year. But Volkswagen still made \$12 billion in 2020. And 2021 was even better. But the history of the carmarket is based around a simple formula: what goes up, must come down •



Ghostly lines of burnt-out Volkswagens following a massive explosion

near a dockyard in Tianjin, China  
All content © The Dog & Lemon Guide MMXX

