



Similar to the Mercedes-Benz CLS, the new Volkswagen Passat CC (for "Comfort Coupe") puts a sleek coupe roofline on a four-door, four-seat sedan.

A New Day for VW

ICONIC GERMAN BRAND AIMS FOR 800,000 U.S. SALES

BY JIM KOSCS,
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After decades of erratic sales performance in the U.S., Volkswagen is ready to swing for the fences. An eventful year has brought an ambitious sales goal, a new plant, a new U.S. top management team, and a new headquarters in Virginia. Between summer and this fall, VW is introducing four new models, including a collaboration with a domestic maker.

Volkswagen Group's stated goal is to achieve 800,000 VW and 200,000 Audi annual sales in the United States by 2018. While meeting with enthusiasm from dealers, that news has raised some eyebrows within the analyst and media communities. The naysayers don't bother Stefan Jacoby, president and CEO, Volkswagen Group of America, who took that position a year ago. "Our optimism is based on a very real business strategy that expands Volkswagen from a niche to a volume player here in the U.S.," he said in a speech addressing *Automotive News* World Congress earlier this year. "This is an ambitious goal, no doubt about it. But, that doesn't mean it's unattainable."

Essential to VW's plans for the U.S. market is to once again build cars here. The company this past summer an-

nounced that it would construct a new plant in Chattanooga, Tenn., where it will assemble a new VW midsize sedan starting in 2010. That car is expected to be more competitive with today's midsize leaders than the Passat has been, and achieve sales of 150,000 a year. A new compact sedan intended to compete with Honda Civic and Mazda 3 may also be built in the new plant, which will eventually reach a capacity of 300,000 units.

In the meantime, VW this past spring had forecast a five-percent increase over the 230,572 new vehicles it sold in 2007. Through July, when most brands were showing declines, VW posted a 1.1 percent increase over the first seven months of 2007.

Far-Reaching Goal

Increasing sales by 350 percent in a decade might be a bit far-reaching, according to Jesse Toprak chief industry analyst for the automobile research Web site Edmunds.com. "Not knowing their product plan, it seems like a very high goal," Toprak said. "There is certainly room for growth, but I don't know about going from 200,000 to 800,000 in 10 years. Look at Hyundai — in 2002, it sold 375,000. In the last 12 months,

it sold 461,000. That is good growth over a six-year period. That kind of growth seems more plausible.”

VW, Toprak explained, will have to do a lot of conquering. “They will have to take sales away from others, because growth in the U.S. market will not be as robust as it has been.” He pointed to the current economic conditions as a potential stumbling block. “It’s bad timing. We’re dealing with the toughest times in a long time.”

Sales Rollercoaster

Florida VW dealer Ron Esserman thinks VW can hit its target. “They’re on the way back. It’s a positive story,” he said. Esserman first became a VW dealer in 1968 and sold out after 20 years. Then, four years ago, VW approached him to buy two failing stores. One of those is now “third or fourth” in the country, he said.

Esserman said some of the strongest evidence of VW’s commitment to the U.S. market is in its captive finance arm, VCI. “They’re really strong, aggressive — and it makes a big difference,” he said. Esserman also expressed confidence in Jacoby. “He’s determined, and he’s telling it like it is.”

Improving Quality

There is ample evidence that VW owners love the way their cars look, feel, and drive. The brand ranked above average in the J.D. Power and Associates 2008 Automotive Performance, Execution, and Layout (APEAL) Study, scoring 797 points out of a possible 1,000. Honda, Nissan, and Toyota all scored below the industry average 770 points with 764, 763, and 760, respectively.

Despite all the love, there is concern about quality. The J.D. Power and Associates 2008 Initial Quality Study (IQS) found VW with 128 problems per 100 cars versus an industry average of 118. In comparison, Toyota had 104 and Honda had 110.

“We have attacked IQS issues from both manufacturing and design perspectives,” said Jacoby. “If a manufacturing defect surfaces, it is addressed immediately, with appropriate urgency.” Internal data, he said, showed customer complaints per vehicle having dropped by 12 percent in 2005, 20 percent in 2006, and 15 percent in 2007. New for 2009, VW is providing free maintenance on its new vehicles for the warranty period, which, however, was shortened from four years/50,000 miles to three years/36,000 miles.

RIGHT: VW is among the last to enter the compact crossover segment with the low-volume Tiguan.



Dealer Expansion

An expansion in the dealer body from the current 600 is needed to handle the kind of growth VW is planning, though the company has not yet announced any specific plans. “They should follow the Toyota model and not add too many dealers too quickly in order to maintain and grow dealer profitability, which supports customer satisfaction,” said Toprak of Edmunds.com.

Jacoby hinted at such an approach. “We reaffirmed to the dealers, our most important customers, our commitment to the United States and to their individual businesses,” he said. “We’re strengthening and supporting the network, focusing on size, structure, and performance.”

View from the Sales Floor

Francisco “Pancho” Diez-Rivas, general manager for Esserman’s International VW store, is emphatic about VW’s prospects.

“VW is a company that has confronted the brutal facts of its problems and come up with solutions. It’s a big company that feels like a small company in the way it’s responding,” he said. “I’ve seen big changes since arriving here four years ago — tremendous growth. We were selling 45-50 new VWs a month. Now it’s 180-200 a month.”

Diez-Rivas suggested another advantage for VW: the Hispanic market. “Everyone is trying to reach this market. But if you look at Latin American countries, VW is a very strong brand there. And that is helping us in this [South Florida] market,” he said.

Jacoby, meanwhile, is fully confident in a brighter future for VW in the U.S. In an interview with the Associated Press this past summer, he called VW “a sleeping giant. It’s an icon.” **AD**



ABOVE: Known as the Golf to the rest of the world, the Rabbit got its American name back in 2007 at the suggestion of VW’s ad agency. Consumer Reports’ highest-rated small car, Rabbit is nonetheless a low-volume model in the U.S.