

# *A General Analysis of VW Group's Marketing Strategy in China under Digital Era*

Renhe Li<sup>1</sup>, Xiaoyang Nie<sup>1,a,\*</sup>

<sup>1</sup>University of Ottawa, 75 Laurier Ave E, Ottawa, ON K1N 6N5, Canada

a. xnie021@uottawa.ca

\*corresponding author

**Abstract:** Volkswagen is a household name in China. VW brought its first car- Santana to the Chinese market in the 1980s. Nowadays, Volkswagen cars are everywhere on the streets of China. The reason why Volkswagen is favored by the 1.4 billion Chinese people is inseparably related to the excellent marketing strategy of the Volkswagen Group. This paper analyzes a series of marketing strategies launched by the Volkswagen Group for the Chinese market and Chinese conditions. Using the 4P model, we analyze the marketing approach of the Volkswagen Group in China in the context of the digital era in terms of product, price, place and promotion. First of all, a wide product line and product portfolio allows customers to get the best value for money and the best price/performance ratio for their willingness to pay. Volkswagen's superior reliability has long been well-established. Moreover, Volkswagen has one of the cheapest post-production maintenance among all competitors. Secondly, the pricing of VW Group products in China is quite competitive, and it is almost difficult to get a car from a European brand other than VW at the same price level. Third, VW Group's distribution network in China is very large. It has dealers nationwide, and Volkswagen dealers can be found in almost all places, even county-level cities. Finally, in today's digital information age, VW Group also firmly grasps the opportunity to actively use internet platforms (e.g., TikTok, Little Red Book) for brand promotion and marketing. VW is also active as a sponsor at many large events in China, further enhancing its brand influence.

**Keywords:** Marketing Strategy, 4P Model, Digital Marketing, VW in China

## 1. Introduction

Volkswagen was founded in 1938; the founder is the master of automobile design, Porsche, in China there are two joint ventures, Shanghai Volkswagen (renamed to SAIC Volkswagen in December 7, 2015) and FAW Volkswagen; its models include Santana, Passat, Tiguan, etc., the impression has always been fuel-efficient and durable and not expensive, and because of this become a more competitive brand. Shanghai Volkswagen's culture of excellence stems from the accumulation of history, realistic efforts, and the pursuit of the future. Shanghai Volkswagen has successfully explored and created a model combining foreign capital, imported technology and self-development, and has engraved "excellence" into the history of the enterprise with its pioneering spirit and remarkable development achievements. With the change of the market environment, the pursuit of excellence is the firm belief and driving force of Shanghai Volkswagen. Volkswagen Group has always adhered to the philosophy of technology leadership, quality first and people-oriented car making. After 85 years

of development, it has now covered many market segments such as SUV, sedan, MPV and new energy vehicles. It can develop to the present scale, and his publicity and marketing concepts can not be unrelated. VW has been posting posts and videos on major internet platforms such as YouTube, TikTok, Little Red Book, etc. in order to let more customers know about VW Group's products and business model.

In this paper, we will take the 4P model as the core to study the marketing strategy of VW Group (China). Firstly, in terms of Products, VW Group needs to produce products that can meet different needs of customers and capture more market segments through different product combinations. Secondly, in terms of price, VW Group adopts an intelligent modular platform to mass produce vehicles, which reduces the cost and creates a competitive price in the market. Next to Place, VW Group has factories all over the world, including China, USA, Brazil, Mexico and so on. In order to expand business to more countries, it is necessary for manufacturers or dealers to ship cars to all over the country. Finally, Promotion and related, in order to make more Chinese consumers understand the full range of VW's product line, there is also a need for promotional campaigns through advertising and sales.

## 2. Literature Review

Our research is related to the marketing strategy of Volkswagen Group (China), marketing theory and digital marketing. So, we pay attention to the literature regarding to those aspects mentioned above.

VW's business in China is basically based on FAW-Volkswagen and SAIC-Volkswagen, and only four of the more than 40 VW models currently on sale are produced by overseas VW companies. Gao shows that Sino-foreign joint ventures will become more and more common and occupy a larger and larger market share in the future [1]. Therefore, the Volkswagen Group will be able to stand firmly and steadily in this context and then shift more of the company's focus to product, price, place and promotion to win more market share for the company.

Today's age of digital media and big data has changed the way customers buy things. Consumers can easily compare products from various manufacturers via the Internet and can view reviews posted by those who have purchased the product and word-of-mouth on the website. Chen notes that consumers are increasingly relying on their mobile devices to generate and receive WOM [2]. Since VW entered the Chinese market in the late 1980s, it has earned a reputation for its products as "reliable and cost-effective" and has established a certain market base through its years of experience in the Chinese market.

VW also continues to enrich its product portfolio in line with the direction of the Chinese market and the needs of consumers. In 2008, the Lavida, the first localized model of the Volkswagen Group in China, was launched and received a frenzy of interest from consumers. Lee et al. identify that localization, the process of establishing the adequate system in the target market according to the given environment to produce the most viable product in the market, can help multinational enterprises (MNE) to better understand the market, and take the most appropriate actions needed [3]. Subsequently, Volkswagen Group has launched various localized models in China, such as Tiguan L, T-ROC, and other long-wheelbase versions. According to incomplete statistics, only Lavida, a localized Chinese model, sold 25,326 units in May 2023. This is enough to see VW's foresight on product localization, and the subsequent sales also proved its decision is undoubtedly successful.

Regarding price, the localization of vehicle parts suppliers is a very successful point of VW Group's marketing in China. Zhao finds that training Chinese goods suppliers is a significant measure that can lead to the improvement of the overall capacity of the Chinese automobile industry [4]. The Chinese government has actively promoted local companies to cooperate with the Volkswagen Group. This is a win-win cooperation for both the VW Group, which can reduce its own production costs,

and Chinese companies, which can learn from the VW Group's advanced technology and thus promote the development of the entire Chinese auto industry.

Volkswagen has encountered many difficulties in its development. Still, Welch has pointed out that to push through the public relations nightmare and regain sales traction following their 2015 emissions testing scandal, Volkswagen embarked on a four-step process that centered on four keywords: Replace, Restructure, Redevelop and Rebrand [5]. Therefore, it is essential that the marketing channels change and improve accordingly with the changes in the market. Marketing strategies should adapt to society while attracting the customer base, as Paul had suggested. It was found that brands can create higher mass prestige value in a foreign country if they follow a masstige Marketing strategy [6]. Different countries and regions should also have different channel strategies; the reason why Volkswagen sells well in China is that it understands the psychology of consumers and can prescribe the right medicine: many people buy cars and do not care whether the car retains its value. What is the performance? Or the interior? If it's a car, they think it will meet their needs.

Ebrahim shows that in this era, social media platform is integrated into the marketing strategy [7]. Globally, the number of social media users is steadily increasing on platforms such as YouTube, TikTok, Facebook, Instagram, Snapchat, etc. Social media has become more and more important in people's lives. It allows us to get the latest information and news, and it helps us to connect and communicate with people all over the world. Steinhoff et al. said that with exponential advancements in computing technology, a rich and ever-evolving toolbox is available to relationship marketers to manage customer relationships online in settings including e-commerce and social media. online communities, mobile, big data, artificial intelligence, and augmented reality [8]. Thus, in the 21st century, with the great age of the Internet, the only way to adapt to this society is to keep up with the changes of the times.

### 3. Analysis

#### 3.1. Product Strategy

VW's product line is very rich; the main models are sedans, SUVs and MPVs, but the main product focus is on sedans and SUVs. When VW first entered the Chinese market in the late 1980s, only one car, Santana, was launched. At that time, the domestic rate of the whole car parts was only 2.7%. About two years later, as Volkswagen's business in China continued to grow, the localization rate of the same Santana model reached 70% by the early 1990s. In 1996, the annual production of Santana reached a staggering 200,000 units. It was thanks to the fact that Santana just entered the Chinese market and maintained the original German flavor, which produced a sharp contrast with the quality of the domestic small cars in the same period. As a result, the first impression of Volkswagen's solid and durable cars was created in the minds of early Chinese car consumers.

Volkswagen China not only pays close attention to product quality but also to the product portfolio. Santana is the representative of compact cars in the Volkswagen brand, and after nearly 40 years of development since the late 1980s, Santana has become the entry-level model of the Volkswagen brand. In 2002, Volkswagen's flagship SUV, the Touareg, entered the Chinese market, positioning itself as a luxury mid-large size SUV with a price tag of one million RMB, making it one of the earlier luxury cars to enter the Chinese market. Technically, the Touareg was equipped with a large displacement naturally aspirated engine, a powerful 4 Motion four-wheel drive system and air suspension, among other rare configurations at the time. The Touareg was the first SUV of the Volkswagen Group and was a milestone. It marked the official entry of Volkswagen and Audi into the SUV segment, and the more intense competition with other car manufacturers such as BMW, Mercedes-Benz and Volvo. Two years after the Touareg was launched, the Phaeton, the flagship sedan built by Volkswagen's handcrafted factories in Germany, also entered the Chinese market. Due to the aura of "handmade",

the Phaeton has a supreme status in the hearts of Chinese car consumers. Unfortunately, production of the Phaeton was discontinued in 2015 due to production costs and sales problems. VW's flagship model in China is continued by Phideton. Touareg and Phideton together constitute the flagship models of VW Group in China, and both cars are equipped with the core technology and cutting-edge design of VW Group. All of VW's models are also moving closer to these two vehicles, with a high degree of similarity in both exterior and interior design language, thus stimulating consumers to buy VW's mid- and low-end vehicles while at the same time ensuring the quality of these products. Different levels of cars can meet consumers from different spending budgets and classes, thus occupying a larger market segment.

Nowadays, FAW-Volkswagen and SAIC-Volkswagen have launched many China-specific models based on the development of the Chinese market and combined with German VW technology. These China-specific cars are the mainstay of VW's sales in China. SAIC Volkswagen alone, the German VW joint venture in China, sold nearly 1.3 million vehicles in 2022, making it the top-selling joint venture in China. Under the supervision of the Internet and the media, VW actively listens to customers' suggestions and improves the problems customers encounter when using their cars in time for mid-term product revisions and upgrades. As a result, Volkswagen's reputation for high quality and cost-efficiency has spread widely among Chinese auto consumers and has been unanimously recognized by customers.

### 3.2. Price Strategy

VW has always insisted on a low-cost production strategy, resulting in a lower price in the same class of products. In terms of production, VW China uses many parts from local suppliers in China, which significantly reduces the cost of vehicle production. Secondly, VW has developed many intelligent and modular platforms to facilitate the production of vehicles according to the size and energy supply of the models. The PQ35 platform has been developed for small cars; the PQ46 and MQB platforms have been developed for medium and large cars; and the MEB platform has been developed for new energy vehicles. VW can adjust the distance of the wheelbase of vehicles based on one platform to adapt to the production of vehicles in different market segments. VW also shares these platforms and parts with its subsidiaries, such as Audi and Porsche, to share development costs. Such initiatives have resulted in significant reductions in VW's development design and manufacturing costs, which can be invested in improving the quality of parts and services seen by consumers, thus providing them with real benefits.

In terms of terminal sales, VW China will set different prices for a certain model according to the inventory situation of each regional dealer. For example, if a model is in short supply among consumers, then VW China will take a mark-up on the price for this model in response to this situation, and the highest price payer will win. This action would increase profits as much as possible without running out of customers and would also alleviate the problem of lack of production capacity for that model. Similarly, when a model is not selling well or when a new model is about to be launched, the company will reduce the price of such models to stimulate consumers to buy them, thus relieving the pressure on inventory and recovering funds for the company.

### 3.3. Place Strategy

The VW Group has invested in online and offline brick-and-mortar stores and actively participated in international exhibitions to showcase its technological capabilities and product innovations. In addition, VW has launched customized services and built social media platforms such as YouTube, Facebook, Instagram, Weibo, etc., to increase brand reach and market share. In addition, VW Group is also working with internet celebrities and bloggers to increase its awareness and influence among

young consumers. The company is also focusing on international expansion and has been strengthening its promotion in overseas markets, with China being one of the largest customers of the Volkswagen Group.

For example, the company has been providing differentiated training content to dealers of different systems in different regions, strengthening the front-line combatants in the market, forming an "iron triangle" of marketing, sales, and after-sales so that each region can formulate a holistic marketing strategy with a more targeted approach. This move reflects the thinking of car companies for market demand. You know, China is a vast area. Different regions for product demand and consumer preferences have certain differences, and different regions of the market share and dealership system are not the same. The strategy of "tailor-made" and "localized" can better enable car companies to differentiate their marketing according to the local market and meet different consumer needs more precisely. In the past two years, around TOC changes, it has built an organizational and process optimization system to realize the user core in several dimensions.

VW Group has clarified the rights and obligations of both parties in terms of management, sales, after-sales service, parts supply, and information feedback when dealers sign contracts with them. Moreover, only one dealer is established in a market area of responsibility. The dealership must be of medium size, and there are certain requirements for the number of new cars sold per year. The dealer's responsibility is to sell new VW Group vehicles, purchase and sell used vehicles, provide after-sales service, and sell original parts, accessories, tools, and equipment. VW Group enforces a uniform reporting system for dealers to facilitate the exchange of information within the system. Each dealer must have a showroom with a total area of no less than 300 square meters. Dealers must uniformly use the VW logo and must place it in a prominent place. They must reflect the image of their products.

### 3.4. Promotion Strategy

With the development of society and the widespread use of the Internet, Volkswagen's online promotion has become increasingly important.

With the widespread popularity of the Internet, Volkswagen actively uses social media promotion, such as ShakeYin, Xiaohongshu, Weibo and other platforms, which can interact with potential customers and increase brand awareness and website exposure through sharing and publishing, thus increasing sales. At the same time, Volkswagen Group is also advertising on these media platforms, which can effectively improve the website's exposure, thus expanding more markets and promoting Volkswagen's sales. Volkswagen can carry out online activities such as holding holiday promotions online to attract potential customers, expand more calls, and effectively increase car sales. Volkswagen Group also incorporates online promotion strategies with SEO techniques that can increase brand awareness and thus expand more markets. Specifically, it refers to search engine optimization technology, which is a technique to improve the structure and content of a website to make it more easily indexed by search engines and thus gain more search engine traffic.

## 4. Conclusion

This paper generally discusses the marketing strategy of the Volkswagen Group in the digital media era by using the 4P model. In terms of products, the Volkswagen Group has captured as many car segments as possible through its early success in product word-of-mouth and the subsequent launch of a wide range of localized products in China. Through the analysis of VW Group's pricing strategy, we find that VW Group has used the modular model platform and the mass adoption of parts from local suppliers in China to compress the production cost and make price adjustments in the end consumption to make more profit. Through the place, we found that the VW Group focuses on the

cultivation of dealers and the establishment of a sales network, and the relationship between the company and consumers is mostly through distributors. In terms of promotion, Volkswagen Group uses internet platforms and SEO technology to stimulate and discover potential users to attract more consumers to buy products by short-term actions that lead to the growth of consumption.

## Acknowledgments

Renhe Li and Xiaoyang Nie contributed to this paper equally and should be considered co-first authors.

## References

- [1] GAO Y. (2020). *A study on cross-cultural management of FAW-volkswagen*. *China-USA Business Review*, 19(3). <https://doi.org/10.17265/1537-1514/2020.03.001>
- [2] Chen, Z., & Yuan, M. (2020). *Psychology of word of mouth marketing*. *Current Opinion in Psychology*, 31, 7–10. <https://doi.org/10.1016/j.copsyc.2019.06.026>
- [3] Lee, J., Kim, J., Kim, J., & Choi, S. (2021). *Why localization is necessary as a business strategy in emerging markets: The case comparison of Hyundai and Volkswagen*. *Journal of Open Innovation: Technology, Market, and Complexity*, 7(3), 190. <https://doi.org/10.3390/joitmc7030190>
- [4] Zhao, M. (2018). *The supplier system in Chinese automobile industry: The case of FAW Volkswagen*. *DEStech Transactions on Economics, Business and Management, (icems)*. <https://doi.org/10.12783/dtem/icems2018/25586>
- [5] Welch, J. (2019), "The Volkswagen recovery: leaving scandal in the dust", *Journal of Business Strategy*, Vol. 40 No. 2, pp. 3-13. <https://doi.org/10.1108/JBS-04-2018-0068>
- [6] Paul, J. (2018). *Toward a 'masstige' theory and strategy for marketing*. *European Journal of International Management*, 12(5-6), 722-745. <https://doi.org/10.1504/EJIM.2018.094466>
- [7] Ebrahim, R. S. (2020). *The role of trust in understanding the impact of social media marketing on brand equity and brand loyalty*. *Journal of Relationship Marketing*, 19(4), 287-308. <https://doi.org/10.1080/15332667.2019.1705742>
- [8] Steinhoff, L., Arli, D., Weaven, S. et al. *Online relationship marketing*. *J. of the Acad. Mark. Sci.* 47, 369–393 (2019). <https://doi.org/10.1007/s11747-018-0621-6>