

Review: Full, Anonymous: No

Given the profile of VW's resources and capabilities outlined in Table 5.4 and Figure 5.7, what strategy recommendations would you offer VW?

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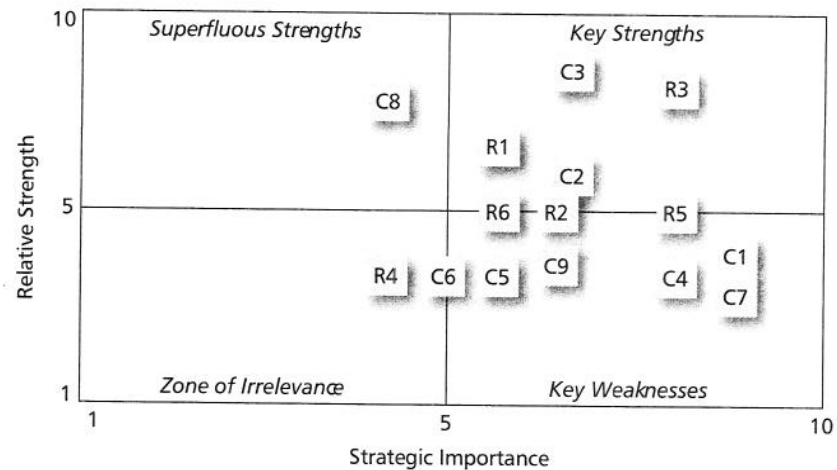
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TABLE 5.4 Appraising VW's resources and capabilities

	Importance ^a	VW's relative strength ^b	Comments
RESOURCES			
R1. Finance	6	6	Credit rating is above average for the industry but free cash flow remains negative
R2. Technology	7	5	Despite technical strengths, VW is not a leader in automotive technology
R3. Plant and equipment	8	8	Has invested heavily in upgrading plants
R4. Location	4	4	Plants in key low-cost, growth markets (China, Mexico, Brazil) but German manufacturing base is very expensive
R5. Distribution (dealership network)	8	5	Geographically extensive distribution with special strength in emerging markets. Historically weak position within the U.S.
R6. Brands	6	5	VW, Audi, Bentley and Bugatti are strong brands but, together with Skoda and Seat, VW's brand portfolio lacks coherence and clear market positioning
CAPABILITIES			
C1. Product development	9	4	Traditionally weak at VW. Despite a few big hits: Beetle (introduced 1938), Golf (1974), Passat (1974), Vanagon (1979), VW still not an industry leader in new product development
C2. Purchasing	7	5	Traditionally weak—strengthened by senior hires from Opel and elsewhere
C3. Engineering	7	9	The core technical strength of VW
C4. Manufacturing	8	4	VW is a high-cost producer, but struggles to attain above average quality
C5. Financial management	6	4	Has traditionally lacked a strong financial orientation
C6. R&D	5	4	Despite several technical strengths, VW is not a leader in automotive innovation
C7. Marketing and sales	9	4	Despite traditional weakness in recognizing and meeting customer needs in different national markets, VW has increased its sensitivity to the market, improved brand management, and managed its advertising and promotion with increasing dexterity
C8. Government relations	4	8	Important in emerging markets
C9. Strategic management	7	4	Effective restructuring and cost cutting, but lack of consistency and consensus at top management level

^aBoth scales range from 1 to 10 (1 = very low, 10 = very high).

^bVolkswagen's resources and capabilities are compared with those of GM, Ford, Toyota, DaimlerChrysler, Nissan, Honda, Fiat, and PSA, where 5 represents parity. The ratings are based on the author's subjective judgment.

FIGURE 5.7 Appraising VW's resources and capabilities (hypothetical)

Note: Figure 5.7 is based on the ratings of resources and capabilities in Table 5.4.

as key strengths and those that we may identify as key weaknesses. For example, our assessment suggests that plant and equipment, engineering capability and supply chain management are key strengths of VW, whereas distribution (a relatively weak presence in the U.S. and Japan), new product development (no consistent record of fast-cycle development of market-winning new models) and financial management are key weaknesses.

Step 3 Developing Strategy Implications

Our key focus is on the two right-hand quadrants of Figure 5.7. How do we exploit our key strengths most effectively? How can we address our key weaknesses in terms of both reducing our vulnerability to them and correcting them? Finally, what about our “inconsequential” strengths? Are these really superfluous or are there ways in which we can deploy them to greater effect?

Exploiting Key Strengths Having identified resources and capabilities that are important and where our company is strong relative to competitors, the key task is to formulate our strategy to ensure that these resources are deployed to the greatest effect. If engineering is a key strength of VW, then it may wish to seek differentiation advantage through technical sophistication and safety features. If VW is effective in managing government relations and is well positioned in the potential growth markets of China, Eastern Europe, and Latin America, exploiting this strength may require developing models that will appeal to these markets.

To the extent that different companies within an industry have different capability profiles, this implies differentiation of strategies within the industry. Thus, Toyota's outstanding manufacturing capabilities and fast-cycle new product development, Hyundai's low-cost manufacturing capability that derives from its South Korean location, and Peugeot's design flair suggest that each company should be pursuing a distinctively different strategy.