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## SKODA AUTO STRATEGY WITHIN VW GROUP

Skoda Auto, an incorporated company, has in last fifteen years gone through many strategic changes. The following study analyses the influences of the Concern's strategy in the direction of the brand. It further creates a complex of theoretical foundation necessary for estimation of design language of the future Skoda Auto generation. The incoming development results from the company's, more than hundred year long history, independence, it's positioning in Europe, and even more in nowadays, the company's integration into the Concern's portfolio. Therefore this study concentrates on the both Volkswagen and Seat brands, considering, these are to be the Skoda's best theoretic competitors within the VW Group. In fine, the vision of a family automobile, the Skoda Roomster will be introduced, presenting the first indication of the firm's identity.

### History of Skoda Auto

Skoda Auto, is considered to be one of the oldest producer of cars in Europe. Its tradition stretches back as far as the nineteenth century. In that time sir Václav Klement coming from Mladá Boleslav bought his at that time one of the first conveyance, which was called velociped. As it soon broke down, he applied to sir Laurin to repair it and in the same year they started to produce their own bicycles, which they named Slavia. The manufacture reached huge success within their neighborhood. Yet in the year 1899 the firm Laurin & Klement began to construct first bicycles, and tricycles with engine, by which they got international appreciation. Consequently achieved production brought them demand also from Germany and England where they started to export. In the year 1905 Laurin & Klement generated their first car, named Voiturette, and later they produced the first eight cubic cars in the middle Europe. The trade mark Laurin & Klement was definitely renamed by Skoda, which

bought the firm in the year 1925. The Year 1987 had become significant, because Skoda developed a new concept of Favorit, which reduced lagging behind world trends in automobile production. Favorit was successful on the market and also won many races on the French Rally.

After the political changes in 1989, in an interest to hold its position on international market, Skoda Auto began to look for a strong foreign partner, who would by its experience and investments reinforce the company's rival ability on the competitive scene on European markets. In December 1990, Czechoslovakia, as the owner of the Skoda company decided for the most advantageous offer from Volkswagen. April 16<sup>th</sup>, 1991 Skoda Auto, incorporated company, started its performance along VW, AUDI, SEAT, as another unit of Volkswagen Group.

### VW Group till 2001

Since the year 1993, position of VW Group's CEO has been performed by Ferdinand Piech, Ferdinand Porsche's nephew. While his operating in the position, the whole Concern recorded a great technical and economic growth. Furthermore, the main aim of Piech's marketing strategy was to permit the utilization of platforms and technical components to all concern's brands. It meant a big financial advantage. By this strategy, all around 50 concern's automobiles were structured on five platforms, which were basically easy to modify. Technical development of the all car companies within the VW Group were accordingly allowed to focus on perfect reconciliation on already attested parts and thereby to achieve higher quality of automobile with significant save of time. Specific disadvantage from the point of view of marketing was the quite similar technical advancement of the automobiles. To make it clear, it is important to imagine, that on the same platform Skoda Octavia, VW Golf, Seat Toledo and Audi A3 were based. It further means that potential customer could buy Octavia for almost a half of the price of Audi

A3, nevertheless basic platform, fare facilities, and use of motor were identical.

But the opinions about application of the same platforms to the different vehicles are various. Some people are still arguing that "image is image and nothing will substitute four rings on the hood.

By a progressive development this technical identity started to reflect even on external design and concern's automobiles began to resemble to each other. In spite of that, to Piech, this inter-concern competition did not make any difference, he remained its supporter. He declared, that this is what encourage the trademark. Indeed, it had happened, that different brands had identical specification and shape in their portfolio, which distinguished only the badge on the grill. For instance Seat Arosa vs. VW Lupo, Skoda Superb vs. VW Passat, or Seat Alhambra vs. VW Sharan.

### Looking for new strategy

It is significant, that under the management of Mr. Piech Skoda Auto made a huge progress in the last thirteen years since the Volkswagen took leadership.

In November 2001 it was announced by the supervisory board that Mr. Piech will have a new successor. He wanted to leave his position, so in April 2002 acceded to an office his friend and former colleague Bern Pischetsrieder, who Piech firstly nominated as superior of Seat and as follow a supervisory board of VW Group (Männer, 2001). After his debacle in BMW with Rover this will be Pischetsrieder's so called second chance, and as Piech said, this might also be an advantage for the company, because human does not make the same mistake twice. But even before he had took his power over the entire Volkswagen Group, Pischetsrieder had already begun looking for new strategy, which critics agreed would be his biggest challenge: "unraveling VW's overlapping mix of brands and models." Accordingly, in late 2001 he made his first move, dividing the brand portfolio in two: the VW Group with Bugatti, Bentley, Volkswagen and Skoda; and the Audi Group with Lamborghini, Audi and Seat. Which

consequently means, as Pischetsrieder take on brand cooperation, Seat has a family relationship with Lamborghini, and Skoda with Bentley. This runs counter to the management of ex-CEO Piech, who advocated brand competition during his nine year regime. (Bern..., 2002).

The presented imaginary division of the whole Group to the two sections, should help the brands to find their own identity and to finish issues about excessive unification.

Accordingly, first group, which is shaped and expected to be sporty will include basically Seat, which is considered to compete with producers as Alfa Romeo, or Honda. The second is the Audi, which should constrict customers who started buying Seat and would likely to reach for higher image, nevertheless they would not leave Groups supply.

Inglostadt's firm will follow especially for BMW and Jaguar. And for those, to whom the automobiles with four circles are not enough, will the Lamborghiny be offered.

The second outline, the conservative one, will start with Skoda through Volkswagen, which might step over Mercedes Benz (it can be seen from new prototype of D1), and going higher, the customers will be offered a more prestige brand which is Bentley in this category.

Bugatti, as the super-sporty and super-luxury car will be positioned on the top of the pyramid. Besides these two divisions, there will be another one, which will involve camions and utility cars (Fokt, 2001).

The Pischetsrieder's approach is greatly expected, according to the Auto News magazine, he might serve several innovations to the so far not very progressing Group. Even though Piech reinforced its growth in qualitative, quantitative and financial way, that were primarily made at the expense of undue unification of products, his successor Pischetsrieder might in his operating period change the policy (Fokt, 2001).

Within the four year plan 2001-2005

Volkswagen Group will amplify its offered load of variety of 59 cars, including noble brands as Bentley, Bugatti, and Lamborghini. In the meantime, there will be significant changes in the major direction of the base strategy.

Consequently, it will be in a relation with identical technology underneath the hood, but mainly consonant interior in a scope of the same series of models with likely the same

wheelbase. However, this trend will be expanded by "modular strategy" by which the firm will be able by rational production and using the same parts, develop essential differences in auto design and its conversion.

Whereas Skoda is set on the lowest level of the conservative branch, Seat and Volkswagen are considered as the potential competitors within the Concern frame. For the further modification of the Skoda strategy it is inevitable to thoroughly know the direction of further development of these brands.

### **Volkswagen design language**

Volkswagen within the frame of conservative branch presents a more prestigious variant in comparison to Skoda. The main value should constitute the functionality in a luxury package. Murat Gunak, a former head designer of Peugeot is now responsible for the Volkswagen automobile design.

New concept of VW Polo, the fourth generation of the German firm's most successful model ever, undertook the technical construction from Skoda Fabia, which provided bigger inside and luggage room. The idea of new Polo was to make a very clear distinction between this model and the real Volkswagen baby, the Lupo but certainly at the same time not to compete to the firm's best seller, the VW Golf. New Polo's intent is to appeal to a wider range of potential buyers and to upraise the Polo's market profile.

Designers focused on the key changes which echoed a distinct improvement in the quality of trim details, accessories and materials. "The usual Volkswagen attention to detail is visible on the items like driving mirror, courtesy lights and sunroof controls, not to mention the door panels, the upholstery and the trim in general" (Gandini, 2001). These improvements are establishing new superior criteria for vitalizing the market. At present, currently manufactured VW Golf Mk4, which in 1997 sold out everything which competition could offer, has got it's collective successor a new Mk 5, officially presented in September 2003. Golf's accomplishment goes back to the

years of sixties when VW Golf replaced the original Beetle, and virtually became part of the national identity. Even in 2002, the Mk4's fifth year, "VW managed to shift almost 275,000 Golfs, more than twice as many as the second-placed Opel Astra, while Ford's Focus found just 92,000 buyers. Nevertheless Golf offers no more space, pace or indeed more value for money than many of its competitors, but in German hearts and minds, nothing even more exciting can touch the Golf. Its secret lies deeper, as a car expert Wolfgang Koning pointed out: "somehow the Golf makes most of us feel good."

On the basis of VW Golf, the Volkswagen Group created a five seats car named Touran with variable interior which will have the advantage of being able to be changed to a seven seats vehicle. Additionally, VW finally spans a gap, which it had in segment of minivans.

Moreover, Group's study for success on the USA market brought another prototype to be introduced at the Detroit Show. Face lifted identical VW Microbus, which can cast someone's mind back to the old VW van, in the time when New Beetle was exposed.

Nevertheless Volkswagen is contemplating any ambitiously, to penetrate to the even more luxurious class, and compete with Passat W8 to Mercedes and BMW. To the question, if the VW by its enter to the luxury class, is not overreaching, Mr Piech responded very optimistic, that VW is already on the ascension and will attempt to obtain customers of Mercedes and BMW, certainly with no defect on brand Audi.

Another successful concept, extremely ambitious to take on top class the German rivals like the BMW X5 and the Mercedes M class was presented in the year 2001 named AAC prototype. Keeping in mind, its designers wanted to apply a typically European character to characteristically American pick-up, and as a result a harmonious vehicle with transatlantic taste occurred. It did not have the characteristic excesses of US models.

Volkswagen for this purpose joined its effort with the already advanced phase of Porsche, and the idea of AAC became reality by designing VW Touareg. (Bianco, 2000).

Expectations are, that every two months from summer 2001 VW Group has been supposed to introduce new model on the market. However they will certainly need billion crowns

investments to develop new models and accessories, to be able to adapt to next decade. It seems that there will be a huge expansion of new cars of VW Group, because no producer of VW Group disposes of large supplies of new cars yet. From the beginning of the year 2002 this portfolio includes cars from tree cylinder VW Lupo to luxury sedans with twelve cylinder engines W12.

### Seat design language

Spanish Seat, as the part of the southern branch with emotionally sport character under the guidance of director Walter de Silva is to create new youthful Latin soul for the sporty Seat brand. Its mission is to produce versatile cars with a strong personality and a much more sport character than is usual. Walter de'Silva has become Seat's Director in 1999, after working for Alfa Romeo where he was a top designer for twelve years. Noticeably, his heart and deep feeling for balance, aesthetic consistency and homogeneity originated the first prototype of new Seat's image called Salsa. Its concept was based on a cabin that could seat four people in comfort, a sizeable boot and at the same time sporty mechanicals. When the team started designing a car around this skeleton they quickly realized that the shape of coupe SW fits the best. As Walter de Silva added, desired ability to adapt human needs is perfectly consistent with the "chameleon-like" feature, because the sportiness is not only a single concept but an entire universe. The New personality for Seat will take a lot of time and hard work, but de'Silva and his designers believe that emotion which they put into the design of this car will catch the people and their own emotions will return from it. If we reach this, he points out; we will not need to copy anybody. (Baruffaldi, 2000).

Indeed, Seat Company under the whole VW Concern aims to create not only intuition but generally a new brand culture. The following step in creating new company image became the study of Seat Tango, to be introduced this year at Geneva exhibition. Tango's purpose as its precursor Salsa is to show off the new Seat look and to underline its positioning

as the Volkswagen's second sports car brand after Audi under southern branch. Presenting two-seater spider to be built on an Ibiza base, the Tango is moreover addressed to the younger and less conventional motorists. Designers were free to do whatever they liked and no doubt they oriented their attentions on the trend from fifties and sixties, which means simple lines, powerful emotional impact and a close relationship between interior and exterior. Evidently, the Tango will no miss any favor and sympathy from public following years.

The essential character created by studies of Salsa and Tango is currently reflected in the automobile series production of Ibiza, Altea and new Leon.

### Skoda Auto strategy

Since Skoda Auto has jointed Volkswagen AG in April of 1991, "it has systematically certified its suppliers with respect to quality, flexibility, innovativeness, friendly prices and service reliability." Customers can be sure of buying products with highest international standard, thanks to capital and know-how from the joint venture partners. An approximately 80 suppliers in the Czech and Slovak Republics are now capable of successfully competing in the international arena. In the year 1998, consumer activities were condensed in tree areas: getting ready for introducing a new vehicle, cost optimization and rise in production of output of Skoda Octavia, and keeping on the development of supplier in Central and Eastern Europe (Purchasing..., 1998).

After an entrance to the VW AG, were the products, manufactured in Mladá Boleslav, frequently compared to Volvo cars. Lately in the notice of top management is Skoda rather likened to Fiat and some of the Japanese automobile factories. It can signalize, that the price advantage which Skoda has had to competition for a long time is slowly disappearing. Fabia, for example, could not make the same merchantable success that company used to have with cheaper Felicia. As a result of the competition between different brands included in the Volkswagen group, the top management, especially the boss Pischetsrieder is convinced that to avoid "cannibalism" between Volkswagens group's brands, the Skoda should become a supplier of

cheaper cars. In seven years this transformation is supposed to become reality and Skoda will be forced to fight with Korean cars, such as Hyundai Getz and Daewoo Kalos, which are thought to over take Fabia's buyers (Kacer, 2002). Nevertheless, since the unification with Volkswagen group in the year 1991, Skoda has made four million cars. The anniversary automobile was presented by Fabia Combi and during the ceremony, the head of board of directors in Skoda Auto, Vratislav Kulhanek, stressed that the dynamic improvement of the automobile factory was reached accordingly after the association with strong strategic partner. From the former local producer of single type of vehicle, Skoda has expanded to be one of the members of significant automobile firm. Today Skoda Auto association imports on the 78 international markets almost half of the million modern and technically advanced automobiles in three series yearly. Thereby Skoda Auto has become as the only middle and eastern European automobile producers, and one of the prestigious world's producers.

In the time when Volkswagen Group entered the Czech automobile factory in 1991, the company was making 170 thousand cars per year. All of them of one kind: Favorit. The first product resulting from the co-operation had become one of the most popular in the long history of the brand- Skoda Felicia, when it reached the sale record of 1, 42 million cars. Skoda Octavia presented the initial brand model, in which the strategy of the same modules and technologies within the concern was used. As follows, at the end of the year 2001 Skoda Auto introduced Skoda Superb model, which became the best seller limousine in the middle and upper middle class in Czech Republic, and thanks to its quality, economic efficiency and appropriate relation between the price and utility, the model Superb defeated also some other competitive brands. Merchantability of the Superb has risen on 79% in this year. (Five..., 2003).

### **Skoda Roomster – new brand image**

At present, Skoda Auto introduced already its third concept car since joining the

Volkswagen Group, to debut at Frankfurt Motor Show, called Roomster. The name is the target: "Room" is an interior that breaks all standards in its class with its extremely generous space and its great number of variations. "(Road)ster" expresses the dynamics and feelings on the road whereas Roomster in interior dynamic. Roomster maintains its compact external dimensions and at the same time manages to offer remarkably generous and flexible interior, combined with an attractive dynamic design in one complete and harmonious whole. The new division within the concern brands refers the Skoda Corporation under the conservative branch, which influenced designers to invent a concept for a compact family vehicle. Its length of 4,055 mm guarantees great handling in the city traffic and enables the driver an easy parking. The width and especially the height exceed all standards usually used so far. Skoda followed completely new paths with Roomster's design. The front of the vehicle resembles the nose of an airplane. The windshield and the side windows in the front doors create an effect totally different from the look of current vehicles. It symbolizes speed and dynamics. The side window appears in an elegant curve and its shape alone suggests massive interior space. The shape of the window and the glass rear doors express flexibility and openness, and at the same time they provide not only unlimited view of the outside, but also free view into the interior of the car. "Roomster is quite deliberately designed as a "communicative" vehicle- relaxed, airy and bright. (Skoda..., 2003). The appearance of the body evokes a feeling of robustness, solidity and safety. The panoramic bird's eye view of Roomster is moreover unusual: both sunroofs and the panorama of the windshield create the shape of an arrow, thus achieving a very dynamic impression.

Roomster introduces design elements that may appear on the future Skoda vehicle. Typical and well known design details of the vehicles are interpreted in a new way, for example, the grille with the typical chrome-plated frame, vertical ribbing and a logo on the top centre. Skoda also places great emphasis on the so called monolithic structure, hence the entire body appears to be one complete cast, and the entire construction makes a reliable, solid and safe impression. Nevertheless, the most important innovation in Roomster is the rear

seat space, considering the rear seat can be moved lengthwise by 750 mm.



Skoda Roomster

A vision of the design study Skoda Roomster represents the change in lifestyle and recreational needs of the future society. Even though production of this vehicle is not planned, the study presents an outline of the direction Skoda Auto would like to follow in the future, and not only in the overall concept of their models, but also in the design of individual elements. (Skoda., 2003)

Under chief designer Dirk van Braeckel and later Thomas Ingelath, the Skoda automobile company recorded huge success. By the 1970s the image of Skoda was associated with poor eastern European design and quality, which would not be appropriate to stay in the present. Ingelath believes the company's history is vital to understand the brand and that the integration to VW Concern was a necessary step in establishing Skoda as a company that makes quality cars. Ingelath's main challenge is to how far he can modernize a brand with so much history. "You have to fight with yourself to see how much tradition you must keep, and at the same time how far you can push forward the brand so that there is no stagnation."

Ingelath believes in maintaining the brand heritage.

Nowadays Skoda employs 25 international designers at its design centre at Mlada Boleslav, as well as many of Czech and Slovak people, which is a big advantage considering Skoda needs to have an international outlook for an international market. Undoubtedly, being part of Volkswagen is also a challenge, because there is competitive element between the different houses, and Skoda intends to be brand with the clever solution. This is what all team members have in mind. Skoda makes a range of cars, from those oriented to a big family to those for older people. (Shahmanesh, 2003)

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