

### **Volvo – How should Volvo evolve with the changing market?**

Over the years, Volvo ([www.volvocars.com](http://www.volvocars.com)) had developed an image of being stodgy and designing cars resembling large boxes on wheels for county gentry. A typical Volvo owner was seen to be middle-aged, had 2.5 kids and had a golden retriever dog, barking in the boot. This image of functionality over styling prevailed. A newer suite of car models attempted to move Volvo away from these traditional boxy lines. Volvo developed a range of cars that seemed to turnaround the fortunes of the company, and deliver stable revenues and profits for the firm. Volvo became one of the most successful automotive brands for its parent Ford Motor Corporation. However sales for Volvo in 2005 were down 11% and sales are continuing to under-perform in 2006, even though total sales in the automotive market are growing. Volvo hopes that a range of newer models will help turnaround their performance. Is Volvo a fading star or is this just a small blip in performance of a stellar company.

Volvo is a relatively small car manufacturer with only 0.7% market share. Of the 62 million cars sold worldwide annually. The Volvo name is over 90 years old and has become a Swedish international icon. In 1999, AB Volvo sold Volvo cars to Ford Motor Company for £6.45 billion, much to the chagrin of many Swedes. Many feared that Volvo would lose its unique appeal, and that the brand would be destroyed by the takeover. AB Volvo still continues to make commercial trucks and buses. The Volvo brand is managed under a unique dual partnership brand committee to ensure that the brand's equity is protected. Ford wanted a slice of the luxury car market to compete successfully against the likes of the increasingly successful Toyota and Lexus brands. Volvo was part of Ford's four-pronged strategy to enter luxury car marque sector. It formed the Premier Automotive Group PAG by buying Volvo, Land Rover, Aston Martin and Jaguar. Volvo consistently made large profits for the group, ranging from \$750 million, and \$1 billion per year. However, other investments such as Jaguar have continued to haemorrhage money for Ford. When Ford bought Volvo, they bought not only a successful brand but a unique culture, and have never been forced into being just a Ford subsidiary. Volvo maintained independence but benefited from platform sharing, shared research and development, and combined buying power.

#### **Figure 1 – Volvo – At a Glance**

<p>Headquarters based in Göteborg, Sweden.</p> <p>Volvo has a presence in over 120 countries.</p> <p>Sold through a network of 2,400 dealers, 1,500 in Europe, and 400 in the US.</p> <p>Employs 27,500 of which 19,500 are based in Sweden.</p> <p>Sold 440,000 cars in 2005.</p> <p>Volvo has sold over 14 million cars during its lifetime.</p> <p>Manufacturing plant in Göteborg, Sweden &amp; Ghent, Belgium.</p> <p>59% of production is based in Belgium.</p> <p>Has established manufacturing sites through partnerships in other export markets, such as China, where it hopes to sell 10,000 a year.</p> <p>Part of Ford's Premier Automotive Group, which includes brands such as Jaguar, Aston Martin, and Land Rover.</p>
---

The Volvo brand was primarily about two key aspects – big estate cars, and safety. Over the years Volvo developed a reputation for big estate cars that would last for long periods of time. Entry-level models were somewhat affordable, with high-end models priced at a premium, with big engine options. The company sells basic models and has

a whole host of optional extras and accessories, ranging from metallic paint, leather seats, roof racks to grocery holders. All of these optional extras helps boost the final selling price, and provides a certain level of customisation sought after by Volvo customers. Now, Volvo has four main types of models, the S-Type (Saloons), the V-Type (Estates), the XC (SUVs), and the C-Type (Coupes). Its XC range became the company's biggest seller, being particularly successful in America, where big cars typically equated to big success. Now with rising petrol prices Volvo's SUV market is under threat. Furthermore consumers are moving away from Volvo's large engines, seeking more fuel-efficient options. The US is the firm's largest market with sales equating to 28%, followed by Sweden with 12%, where one in five cars sold is a Volvo. In these developed markets, growth is flat; however in emerging markets such as in Asia, prospects seem good.

**Table 1 – Volvo Market by Country, 2005**

<b>County</b>	<b>Number of Sales</b>
United States	123,575
Sweden	52,696
Britain	38,307
Germany	35,035
Italy	20,533
Netherlands	18,879
Spain	18,335
Japan	13,427
Belgium	12,638
Canada	11,651
Total	443,947

Competition in the global automotive market is fierce. The company's key competitors would be Volkswagen's Audi, General Motors Saab, Toyota's Lexus, Mercedes- Benz and BMW. Sales for Volvo's key competitors are strong and rising. The industry is faced with some notable challenges: the impact of globalisation, increasing regulation, growing environmental/energy concerns, rising fuel prices, rising commodity prices, calls for more safety initiatives, large taxation on automotive trade, manufacturing overcapacity, pressure on margins, and changing socio-cultural influences. Some automakers are faced with crippling debt and ebbing market shares such as General Motors, and Ford. Companies have to adapt or face death.

Toyota is becoming the world's largest and most successful car manufacturer, saying that it even aims to increase total car production by 20% for 2008. They are achieving huge success through their winning combination of value for money, fuel efficient, and reliable cars. This is what the industry is labelling "*guzzler fatigue*", where consumers are migrating to smaller fuel-efficient cars. Also governments are putting in place taxation structures that penalise large cars, with large CO2 emissions. Governments are providing tax incentives for consumers who buy fuel efficient hybrid and Flexi-Fuel cars, and possibly other incentives such as free road tolls, parking etc. With the rising price of oil in the American market, all of the major automotive players have seen sales shrink, as consumers move towards more fuel-efficient cars. Volvo is now offering Flexi-fuel (*combination of Petrol& Ethanol*) in certain geographic markets. This provides consumers with a more eco-friendly alternative and cheaper oil prices. These cars produce 80% less carbon gas emissions.

Volvo states that its vision is *“To be the world's most desired and successful premium car brand”*, whereas in its mission statement it aims to *“create the safest most exciting car experience for modern families”*. This continued emphasis on creating a luxury automotive brand means that research and development is crucial, and that Volvo needs to create models that exude quality, performance, and safety. Probably an interesting aspect of their mission statement is their concentration on the family sector, especially in light of declining birth rates in Europe, smaller families and more couples choosing to remain childless. Many cars on the road today are used by just single occupants, commuting to work. The firm sees its future as delivering ‘safe’, ‘premium’, and ‘exciting driving’ suitable for families. In a radical departure from this philosophy the firm has launched a new sporty hatchback called the S30, destined to compete against high-end versions of VW’s Golf. A key challenge for Volvo is to attract younger drivers to their car marque, as its target audience of 15 years ago is downsizing and migrating to smaller fuel-efficient cars, as they approach retirement. Luring the next generation of Volvo drivers is essential in ensuring long-term success. Volvo’s design philosophy is that *“good design is not only a matter of styling the surface. It is just as important to make the product easy to understand and use. If the product is not functional, it can't be beautiful.”*

**Table 2 – Volvo’s Product Range**

	<b>Description</b>
<b>C30</b>	Small Hatchback
<b>S40</b>	Mid Sized Saloon (Entry Level) Prices from £15,700 (€23,100)
<b>S60</b>	Mid Sized Saloon
<b>S80</b>	Large Luxury Saloon
<b>V50</b>	Mid Sized Estate, Second Most Popular Seller.
<b>V70</b>	Large Estate, V stands for versatile.
<b>XC70</b>	Cross Country Sport Utility Vehicle (SUV) Prices -
<b>XC90</b>	Large SUV, Most Popular Seller, Prices from £33,000 (€48,000) to £54,000 (€79,000)
<b>C70</b>	Turbo Charged Convertible

The company’s overall long-term aim is to sell 600,000 cars annually. The company ceased assembly operations in South Africa, and has now started ramping up production in China. The company has established over 40 state of the art dealerships in the country. Volvo has even decided to sell in India also, selling initially in three dealerships its premium ranges. The company sponsors the internationally known Volvo Global Ocean race, and golf events that complements its core target market. Volvo has created a museum to showcase Volvo’s brand philosophy called the ‘Volvo Experience’, full of interactive exhibits to showcase the company, its brand, and its achievements. In order, to be successful in the premium sector, it believes that customers’ satisfaction in the Volvo brand experience is vital. This can be achieved through excellent superior product performance, and excellent dealership service.

Despite the takeover from Ford, Volvo has maintained much of its independence. It benefits from shared R&D expenditure, and buying power. Furthermore the company benefits from platform sharing, where the costly undercarriage is shared between diverse models. For example, their V50 estate shares the same platform as a Ford Focus, and a Mazda. Premier Automotive Group has continually made losses, which albeit have been gradually reducing. PAG is now considering off loading the super luxury niche brand Aston Martin. It believes that success can be achieved through strategic positioning, and operational effectiveness (e.g. shared technologies, cost advantages). Their emphasis is on design, safety and sustainability.

Volvo has launched Volvo Vision 2020, where the firm aims to differentiate itself from its competitors. The two central blanks of this strategy is an ongoing commitment to the environment, and to safety. The transfer from the concept of the “*common good*” to the “*private good*”, where a fun, exciting driving experience is created for the customer. By doing so the firm aims to create a brand that is well respected and trustworthy. It aims to create cars that are exciting to drive, and that drivers feel good about driving in. In relation to the environment the firm plans to improve energy efficiency, and health related technology, through the incorporation of recycled materials, alternative fuel types and, reduced emissions. The continued emphasis on safety aims to focus on preventive and protective safety through reducing accidents, fatalities, and injuries. Volvo has placed a large emphasis on creating a safer world, in relation to the environment, and driving. This will represent Volvo’s core positioning strategy, but will it yield increased dividends, in a market where competitors are mimicking this strategic focus?

The company is extremely proud of its innovation in car safety enhancements, being pioneers of the safety cage, crumple zones, side-impact protection, antilock brakes, whiplash protection, and airbags. Volvo invests heavily in safety research and development; its Göteborg Safety centre is world-renowned. The company continues to innovate with Blind Spot and collision warning systems. Yet branding a car as just safe is never going to win over large numbers of would-be consumers. Performance, styling, reliability, handling and value for money are all vitally important. Volvo’s core positioning statement of producing the safest cars in the market remains, yet more and more of its competitors have also successfully integrated safety into their customer propositions (e.g. *Renault*). It needs to offer something else to consumers.

Industry commentators suggest that Ford should consider selling Volvo, as it could gain a very good price, its European cost base is considered too high, and that it is not that highly integrated into the Ford corporation. Whilst others believe that another loss making division should be sold such as Jaguar, it provides \$1 billion in strong operating profit, has a strong product portfolio, with little Ford overlap, and the Volvo safety centre is the best in the automotive industry. Will Ford hold onto Volvo? The company uses the tag line “Volvo. For Life”. A key question remains for Volvo, will Volvo maintain its tried and tested marketing formula, or will the firm have to pursue a radical rethinking of its business philosophy in the wake of a changing marketing environment.

### Case Questions

1. **Outline and discuss the macro- and micro- environmental factors that are influencing Volvo’s strategy?**
2. **Conduct a SWOT analysis on Volvo cars.**
3. **Outline the strategic options available to Volvo Cars, recommending what you believe to be the best option available, giving reasons for your answer.**

*This case was written by Conor Carroll, Lecturer in Marketing, University of Limerick. Copyright © Conor Carroll (2006). The material in the case has been drawn from a variety of published sources.*