

Innovation as a Core Value



An Interview with Adrian Hallmark,
Executive Director – Asia Pacific, Volkswagen AG



Adrian Hallmark

EDITORS' NOTE Adrian Hallmark completed his studies and industrial training as a mechanical design engineer in 1983 and began his automotive career in the retail sector. He then spent 10 years at Porsche in the United Kingdom, first as part of the management group that achieved its turnaround, and later as the CEO. In 1999, Hallmark joined the board of Bentley Motors as Global Sales and Marketing Director. In 2005, he was named Executive Vice President for Volkswagen of America, Inc., and since 2008, is Regional Director for Volkswagen in Asia.

COMPANY BRIEF With its base in Wolfsburg, Germany, Volkswagen AG (www.vw.com) is Europe's largest automaker, manufacturing the VW brand (which includes the Golf, Jetta, New Beetle, Passat, Phaeton, and Touareg models), as well as Audi, Bentley, Lamborghini, Seat, Škoda, and Bugatti, at plants in Europe, Africa, the Americas, and Asia Pacific. It owns approximately 49 percent of Scania (a Swedish truck maker) and has a successful financial services subsidiary.

Have you seen a major impact on Volkswagen's business in the Asia Pacific region as a result of the current economic crisis, and is it difficult to find growth today?

The Asian financial crisis in early 2000 caused a lot of banks and companies to de-leverage before the big bubble burst in the Western economies, so the drop they're experiencing is not as severe as what we're seeing

in Europe and in America. The beauty of Asia is that there is never a single perspective. For example, in China, the government stimulus package they put together to make lower-end cars more affordable for more people, and the increase in credit flows to allow people to take loans and buy cars, has led to historical highs in the performance of the Chinese market.

However Japan, a region that had 10 years of deflation before the bubble burst, is really struggling at the moment. The Japanese government is putting incentives in place, but it's a very specific set of incentives encouraging people to buy hybrids, which are expensive cars. So we think we'll see a slight uptick in the Japanese market compared with our worst case scenario, but it will still be below last year.

India, with a population of more than 1.1 billion and a 1.2 million car market has, over the past five years, averaged a double-digit annual growth rate. This year, the growth has slowed to around 3 percent, but we expect stability in the market, not a decline in the market.

The 13 ASEAN markets today account for about 1.7 million car sales among them, but that's forecast to double within the next eight years, so the growth prospects for the Southern Asian region are still positive for the next 5 to 10 year period.

In an industry where everyone advertises safety, service, and quality, is it challenging to stand out?

Innovation, as part of the core brand value, is something that really does set us apart. We have an engine technology called TSI and a gearbox technology called DSG. When you put them together, you can get performance like a GTI with consumption like a TDI Jetta from a gasoline engine. We have reached capacity limits in our TSI engine output, because everybody all over Asia is prepared to pay a little bit extra to get something that is 20 percent more efficient than the average engine it compares with and still gives performance and a GTI-type feel. When you add to it the manual but automatically changing DSG gearbox, it further improves the economy and driving enjoyment. We've got airbags everywhere, park assistance, and technology that normally would only be available on top-end cars, but we can bring them into the Polo, Golf, or Jetta classes, and that sets us apart from our low cost competition.

With a brand like Volkswagen, which has been doing well, is it frustrating to be

grouped under the negative industry focus today?

At the moment, we see ourselves as fortunate, and we'd like to think it's by design created by our products and our positioning in the marketplace, but it's not only that. Currency valuation, for example, is a far bigger influence on the strategic trends of the car companies than most other factors that they can manage. The value of the Euro versus the dollar, for example, can shift 30 or 40 percent over a five-year period, and there is no car company that can easily adjust the cost of their products or business units in the same period. So your global footprint and your currency footprint is as decisive as your product portfolio and market portfolio in terms of growth or profitability. If we consider the more strategic perspective, mass mobility has been a decisive factor in the free movement of goods, services, and capital, and therefore, economic development over the past half century. So this automotive industry will survive in the future, but we are going through a fundamental shake out, which happened so fast that it's easy to say we should have seen it coming, but no one did.

It seems that no matter how much you innovate, you maintain the history and tradition that Volkswagen is known for. How critical is that to the brand?

It has to do with the structural integrity of our cars and the long-term value of our product. We compromise on gimmicks, and sometimes on customer features in order to build the safest, strongest, most durable cars we can, that are efficient in a way that we think will work for the customer. Volkswagen has a strong conviction to what it does, and this goes for all nine of the Volkswagen group brands. We develop them in a way that fits their character and their heritage; we don't just follow the latest trends. We may not be the fastest, but we try to be the best.

What are the key priorities for ensuring future growth in the Asia Pacific region?

Whatever we do, we need to never lose our core values. But to activate our growth in Asia, it's all about getting the right products in the right price points and building the distribution networks and the brand image around them, while never trying to overstretch. We've proven we can do it in China and Brazil, where we're number one, as well as in Argentina and Mexico, where we've got dominant market share. We can do it in Asia too, and we will. ●