
Audi and the Chinese Market: A Success Story

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Case Synopsis

Research Problem

The German company Audi (Volkswagen group) has become the leading ‘premium’ car brand in the Chinese market. China remains a complex market, which is difficult to enter, and it therefore seems interesting to analyze key success factors that have allowed Audi to develop in the world’s largest automobile market. Audi has chosen to concentrate production facilities in Germany and it is thus necessary to examine major benefits and risks associated with the recent decision to significantly increase production capacities in China.

Case Summary

Audi, a major actor in the ‘premium’ car market, appears to be highly successful in China, which has become the company’s first market worldwide. The company has acquired an important experience on international markets and entered the Chinese market in 1988. Since then, Audi has continuously developed its sales in China and has also established several production facilities. Today, competition in the ‘premium’ segment is strong, and German competitors BMW and Mercedes also follow ambitious development plans in China. The Audi brand thus has to multiply its efforts to remain the market leader in this segment.

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Learning Objectives

- Familiarize students with the characteristics of the premium market segment in China,
- Analyze the approach used by a foreign car company to develop in the Chinese market,
- Identify key success factors that can help foreign companies to establish themselves in China.

Themes and Tools Used

- Strategic positioning
- Competitive advantage
- Foreign market entry
- Strategy
- Country-of-origin

Target Audience

Business schools and universities (initial and executive education).

1 Introduction

During one of his business trips to China, Audi's CEO (Chief Executive Officer), Rupert Stadler, proudly announces several key figures concerning the company's sales in the Chinese market for 2012: the brand delivered 405.838 vehicles to Chinese customers, which corresponds to an increase of 29.6 % in regard to the previous year. He emphasizes that China has become Audi's first market worldwide, representing 27.9 % of the company's vehicles sales, well ahead before Germany and the United States. The local management team of Audi is pleasantly surprised about these figures, but also aware that competition in the 'premium' car segment remains strong. BMW and Mercedes have considerably increased their efforts to catch up with their German competitor. Several new managers have recently joined the team of Audi China and they ask themselves how Audi has succeeded in establishing itself as the leading brand in the 'premium' segment of the world's first automobile market. Will the identified key success factors allow the company to continue its ongoing growth in China? Which actions should be conducted to prepare the company for the coming years on a very complex and fast-evolving market?

2 Audi: A Premium Brand

Audi is part of the German Volkswagen Group, one of the world's biggest automobile manufacturers, who owns a large portfolio of brands, ranging from smaller cars to luxury class vehicles: Audi, Bentley, Bugatti, Ducati, Lamborghini, MAN,

Porsche, Scania, Seat, Skoda, Volkswagen Commercial Vehicles and Volkswagen Passenger Cars. The different brands can benefit from the financial expertise and resources of the Volkswagen Group, particularly when they need to make important investments. The Audi company can thus develop synergies with the Volkswagen Group, e.g., for R&D projects and foreign market entries where costs can be shared, and make significant savings, especially with regard to supplies. According to specialists, Audi can save almost 10 % on supplies compared with independent car manufacturers, since many parts and components can be bought via Volkswagen's central purchasing office. Unlike its German competitors BMW and Mercedes (Daimler Group), the company can also make relatively high margins on smaller sized models, e.g., the Audi A1 model (Hertrich & Mayrhofer, 2011), as numerous parts and components can be bought via Volkswagen's central purchasing unit. At the same time, Audi enjoys real autonomy concerning the purchase of certain higher quality materials for its 'premium' vehicles.

Today, Audi has become one of the leading 'premium' brands on the global car market (Hertrich & Mayrhofer, 2015). In the automobile industry, the 'premium' segment ranges between the general public segment (for example, Ford, Peugeot) and the luxury car segment (for example, Bentley, Bugatti) and has the following characteristics: high technology, high price, personalised customer service, exclusive distribution, customer experience and products with a strong image. Audi develops a differentiation strategy, which is mainly based on technological superiority and the quality of services. This strategic positioning, which concerns the whole range of products, is illustrated by the slogan '*Vorsprung durch Technik*' (progress through technology), which is used by the brand throughout the world, sometimes even in German to emphasize the country of origin of the company—“Made in Germany” (Barmeyer & Hertrich, 2003; Ghauri & Cateora, 2014; Mayrhofer, 2012).

3 Audi: An International Company

In 2012, Audi's sales turnover stood at 48.8 billion Euros, with a net profit of 4.4 billion Euros. The company sold 1.45 million vehicles, of which 1.19 million vehicles were sold in international markets (81.9 % of the brand's sales). Table 1 indicates the breakdown of vehicles sold by Audi in major markets. China (27.9 % of total sales) appears to be the most important market of the brand, followed by Germany (18.1 %) and the United States (9.6 %). One can also observe that Audi is experiencing a strong growth in several emerging markets (China: +29.6 %, Russia: +44.1 %) where the 'premium' segment is enjoying strong growth rates, but also in the United States (+18.5 %) where the company has significantly invested in communication campaigns.

The head office of Audi is located in Ingolstadt, near Munich. The company has chosen to manufacture a major part of its vehicles in Germany, despite high labor costs: Audi has two production facilities in the country, one in Ingolstadt, in Bavaria, the other in Neckarsulm in Baden-Württemberg. Several reasons explain

Table 1 Breakdown of Audi vehicle sales by main market (2012)

Country	Number of vehicles sold in 2012	Variation compared with 2011 (in %)
China	405,838	+29.6
Germany	263,163	+3.6
United States	139,310	+18.5
United Kingdom	123,640	+7.2
France	62,202	+0.3
Italy	50,085	-17.0
Spain	36,139	-11.7
Russia	33,512	+44.1
TOTAL	1,455,100	+11.7

Source: Adapted from <http://www.audi.com>

Table 2 Geographic location of Audi's production facilities (2012)

Production site	Number of employees	Number of vehicles produced
Ingolstadt (Germany)	33,729	583,824
Neckarsulm (Germany)	14,247	265,622
Brussels (Belgium)	2372	118,200
Martorell (Spain)	1500	19,654
Győr (Hungary)	7322	39,518
Bratislava (Slovakia)	2200	53,707
Changchun (China, joint venture)	9700	310,036
Aurangabad (India)	140	4674

Source: Adapted from <http://www.audi.com>

this location choice. First, the German and other European markets remain important for the company, thus reducing transportation costs and facilitating logistics processes. Second, the company can benefit from the positive “Made in Germany” image, which is highly valued by potential customers in the ‘premium’ segment. Thirdly, the concentration of activities allows the control and supervision of R&D, production and sales activities, thus limiting the risk of losing core competences and being confronted with quality problems. Nonetheless, several models and components are also produced outside Germany. Audi thus has a production subsidiary in Brussels (100 %-owned) where it produces the Audi A1 model. The production of the Audi Q3 takes place at the Seat plant in Martorell, in Spain. The company is also manufacturing engines and some models in its factory in Győr, in Hungary (100 %-owned). This subsidiary produces 1.9 million engines per year, part of which are delivered to other brands of the Volkswagen Group. It is important to mention that the labor cost in Hungary is 80 % lower than in Germany. The Audi Q7 model is manufactured at the Volkswagen plant in Bratislava, in Slovakia. Audi has also set up a production facility in Changchun, in China (a joint-venture signed between the Volkswagen Group and the Chinese manufacturer FAW, First Auto Works) where it produces vehicles for the local market. Recently, an assembly unit

was set up at the Skoda plant in Aurangabad, in India where Audi plans to produce vehicles for the local market (see Table 2).

4 Audi in China

Audi entered the Chinese market in 1988, providing the brand a “first-mover advantage” compared to its competitors (e.g., BMW established its first joint venture with a Chinese partner in 2003). It was the first ‘premium’ car brand to produce vehicles in China, signing a license agreement with the Chinese car manufacturer FAW (First Auto Works) for the production of the Audi 100 model. In 1991, the Volkswagen Group and FAW set up a joint venture named ‘FAW-Volkswagen Automotive Company (FAW-VW)’, mainly because of legal requirements. At that time, entering the Chinese market was only possible through exports or equity investments shared with Chinese companies. For establishing the joint venture, Volkswagen had to conduct long negotiations with the Chinese government, which became one of its clients. Today, the joint venture is owned by Audi AG (10 % of the capital), Volkswagen (20 %), Volkswagen China Invest (10 %) and FAW (60 %). The factory, which is Audi’s main production facility outside Germany, manufactures vehicles for the Audi and Volkswagen brands since its creation. The history of Audi in China is presented in box 1.

Box 1 The History of Audi in China

- 1988 Audi and First Auto Works (FAW) signed a technology transfer and license contract for the manufacture of Audi cars at FAW (Audi 100 model).
- 1990 Volkswagen and FAW signed an agreement on establishing a joint venture with an annual production capacity of 150,000 cars.
- 1990 Opening of the FAW-Audi car assembly line.
- 1991 Creation of the joint venture FAW-Volkswagen Automotive Company.
- 1995 FAW, Volkswagen and Audi entered into a tripartite joint venture agreement, marking the formal inclusion of Audi cars in the scope of the company’s production.
- 1996 The first Audi 200 rolled off the assembly line.
- 1999 The Audi A6 rolled off the FAW-Volkswagen assembly line.
- 2001 The Audi A8, Audi’s flagship model, was released in the Chinese market.
- 2003 The Audi A4 was put into production in China.
- 2005 The all-new CKD (Completely Knocked Down) A6 was officially released in Shanghai.
- 2005 The all-new CKD A4 was announced to hit the market in China.

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- 2006 FAW-VW Audi Sales Division was established in Changchun. The premium SUV Audi Q7 made its official debut. The all-new Audi TT was officially released in the Chinese market.
- 2007 The 100,000th Audi A6 rolled off the assembly line at FAW-Volkswagen.
- 2007 Audi became the first premium car brand to reach annual sales of 100,000 units.
- 2008 The Audi R8 Spyder hit the Chinese market. FAW-VW Audi officially released the all-new CKD Audi A4.
- 2009 The Audi Q5, which combined innovative Audi design and world-leading technology, made its official debut.
- 2010 FAW-VW Audi Sales Division announced the official release of the CKD Audi Q5. FAW-VW Audi celebrated its 1,000,000th sale in Changchun: after 22 years of constant expansion, Audi became the first premium automobile brand with a cumulative sales volume of one million units in the Chinese market. FAW-VW, Audi and Tongji University jointly launched the Audi-Tongji Joint Lab.
- 2011 The all-new state-of-the-art flagship Audi A8 hit the Chinese market. The keenly expected star model Audi Q3 makes its global debut at the Shanghai Auto Show. The Audi R8 Spyder Matrix was unveiled at Beijing's The Place. The Audi flagship model A8 was released in Guangzhou. A grand launch celebration was held for the Audi A1 series at the Beijing National Stadium. The Audi A7 Sportback, a premium 4-door sport sedan, hit the Chinese market. Audi ranked first in the J.D. Power Sales Satisfaction Index and China Customer Service Index for the tenth consecutive year, becoming the most customer-preferred brand in China's automobile market.
- 2012 The new Audi A5 and S5 series were officially released at Beijing's 798 Art Zone. The all-new Audi A6 made its official debut in Guangzhou. April 23, 2012: FAW-Volkswagen and Audi brought the Audi A6L e-tron, Audi Q3 Jinlong Yufeng Concept and Audi RS Q3 Concept to the Beijing Auto Show for their international debut. The premium Audi Q3 SUV was launched at the Guangzhou Stadium. The new Audi A4 was officially released in Qingdao. FAW-VW Audi once again topped the J.D. Power SSI and China CSI, beating all other premium car brands. The all-new Audi A8 30 FSI, 55 TFSI Quattro and S8 were officially launched.

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The Audi R8 China Edition, the first mass-produced Audi model featuring Chinese characters in its interior decoration, was released at the Shanghai Audi International Circuit.

Source: adapted from: <http://www.audi.com>

Audi has three main locations in the Chinese market. The headquarters of Audi China are established in Beijing and coordinate the activities of the company in China (strategy, procurement, logistics, marketing, controlling etc.). The joint venture 'FAW-Volkswagen Automotive Company' is located in Changchun, in the North East of China, and produces the Audi A4, A6 and Q5 car models for the Chinese market. In 2012, the annual production capacity of Audi in China reached 350,000 vehicles. Sales activities are also managed by the joint venture. In 2014, Audi will open a new production site in Foshan, in South-East China, to assemble the Audi A3 model. The opening of the new plant and the expansion of the Changchun plant will allow Audi China to increase its production capacity to 700,000 vehicles.

Today, almost the whole range of Audi car models is available for Chinese customers. 90 % of deliveries concern private customers (B to C) and 10 % business clients (B to B). Audi cars are sold via an exclusive dealership network, comprising more than 350 dealerships in more than 100 cities. The objective is to reach 500 car dealerships by 2017. The company has always introduced its newest technologies to China. Audi was elected the most successful brand in "Best Cars 2013", an annual award provided by a major Chinese automobile magazine.

In terms of sales, Audi (405,838 vehicles in 2012) seems well ahead of its German competitors BMW (326,000 vehicles) and Mercedes (196,000 vehicles) in the Chinese market. All three carmakers run production facilities in China where they have quadrupled their production in the last 5 years. Today, they account for 75 % of premium cars sold in China. The three competitors have considerably increased their efforts to improve their market position: in 2011 and 2012, BMW has enjoyed faster growth than Audi and Mercedes has set the objective for China to become its largest market. Mercedes opened 75 new dealerships in 2013. Competition remains strong and Audi has to pursue its actions to remain the leading premium brand in the world's biggest automobile market. The company intends to increase its market-share in China, which is currently limited to 3 % (compared to 8 % in Germany and 5 % in Europe). It plans to develop local production capacities to reach 700,000 units annually, to launch three new models every year and to extend its distribution network from 300 (in 2012) to 500 by 2017 and 700 dealerships by 2020.

You have recently joined the management team of Audi China and you are asked to participate in the meetings concerning the ambitious development plans of Audi in the Chinese market. Two questions seem of particular importance:

1. Audi has become the leading 'premium' car brand in the Chinese market. Which are the main key success factors of Audi in China?
2. Audi has decided to significantly increase its production capacities in China. The objective is to produce a major part of cars sold in the Chinese market in the two local production plants. Which are the main benefits and risks associated with this strategic choice, notably in regard to the image associated with Audi as a brand "Made in Germany"?

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