

EMBA6071

Global Business and Management Field Study



International Relations of Germany

Overview of Audi AG



Winnie FAN

Ronald FOK

Gary LEE

Selina LEUNG

Fredrick LI

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Introduction

Germany in international relations context is complicated, due to its past history, geographical position, and also its interaction with neighbouring countries. Germany, on one hand, the aggressor; on the other hand, a power who held back in times of need. The background of Germany's international relations is first explored to understand the dynamics, ultimately leading to an in-depth look at the strategic relationship between Germany and other major powers, namely EU, Russia, United States and China.

The "Aggressive" Germany

History had placed Germany on the north of the North European Plain, an area with a few rivers to serve as defenses, but some of the most productive parts of this new nation-state were on the opposite bank of the Rhine, completely unprotected. To the west was France. To the east was Russia. There were centuries when Germany was fragmented and weak, but in the 1800s, tables were turned. Otto Von Bismark, a conservative, monarchist, and militaristic Prussian prime minister united Germany into a powerful centralized state, proclaiming the Second Reich with a powerful army, an efficient bureaucracy and a loyal bourgeoisie.

To the Germans, it was the Germanic tribes that overran the Holy Roman Empire. Indeed, terms such as *Mittelage* and *Mitteleuropa* started to appear in books and documents, which depicted Germany in the central position in Europe, and envisioned a future Germany in a new Europe, ruled by a caste bred from the best human specimens.

The "Insecure" Germany

Germany's aggressive stance followed through the chaotic years of World War I in 1914-1918, until the defeat of Adolf Hitler in World War II. After Germany's unconditional surrender, the post-war Germany is disarmed, demilitarized and divided ultimately into two, the West a Federal Republic allying with USA, and the East a Democratic Republic with strong ties with USSR.

It took the weakened Germany decades to recover, amidst the milestones such as the reunification of Germany in 1990. This is not without its woes, as the key issues faced was the cost of reunification, and the modernization of the former East Germany. Even at the start of the 21st century, Germany, as the biggest European economy, was in recession with the lowest growth rate among EU countries for 3 consecutive years, and in the last global financial crisis, it was hit hard.

To Germany, it was deeply insecure, fearful of its neighbouring countries concern of the returning Reich. Germany's leaders knew their nation could not survive if it was attacked simultaneously by France and Russia, and thus driven by its own fear, devised a strategy of preemption coupled with alliances. Moreover, as recent decades, military aggression is no longer the key tactics in the race of resources, there are reasons to believe why Germans excelled in arenas as in technology, politics and finances as resource trading tools with major powers, which is particularly evident for EU, Russia, USA and China.

Germany and EU

The EU was envisioned to serve two purposes. The first was the integration of western Europe into a limited federation, minimizing the threat of Germany by binding it together with France. The second was the creation of a vehicle for the reintegration of eastern Europe into the European community. It was also seen as a step towards resuming Europe to its prior position as a global power. From its founding in 1993 until 2008, the EU enjoyed a period of unprecedented prosperity. The measure of a political entity is how it handles adversity, and with the crisis of 2008, all the unresolved issues emerged.

When the financial crisis of 2008 hit, the expectation was that the EU's healthier countries would bail out the banks in Eastern Europe. Germany had the strongest economy and banking system, so it was expected to take the lead. But Germany balked. It did not want to underwrite the rescue of eastern Europe and shoulder the burden. Instead, the Germans encouraged the East Europeans to go to the IMF for a bailout. This would reduce the German and European burden, diluting their responsibility with contributions from the US and other benefactors of the IMF.

This fallout from the 2008 crisis underscored just how far Europe was from being a single country. It also called attention to the fact that Germany was the

prime decision-maker in Europe. However, Germany is also uncomfortable in this role that was pressed on. As the Germans reconsider their interest in the EU periphery, the peripheral countries raise questions about the economic benefit of integrating with the Germans. They resent losing control over vast areas of their economies, such as the banking sector, especially when they are expected to stand on their own if a crisis occurs. That those on the periphery are expected to sustain their economies with a monetary policy designed for the core adds to the pressure on both sides.

Germany's relationship with France has significant inference on EU. Germany's postwar resolution was to align itself closely with France economically and become the new axis of Europe. If France and Germany stand together, they remain the European center of gravity. If Germany and France collide, that collision rips apart the fabric of Europe, leaving the federated nations to divide and realign in some new configuration.

The Franco-German alignment has its own tensions today. the first one is economic. Germany is much more disciplined fiscally than France, which means that the two countries are rarely in sync when it comes to financial cooperation. The second tension revolves around defense policy. The French have always seen a united Europe as a counter to the US, and this would require European defense integrations, which inevitably would mean a force under Franco-German control.

The Germans of course value the integration with France that Europe brings, but they have no desire to take on either France's economic problems or the creation of a European military force set against the US. They simply don't want the potential burdens of the former or risks of the latter.

Germany and Russia

Germany has little interest in American operations in the Middle East and no interest whatsoever in expanding NATO. Closer cooperation with Russia is not a bad idea from Germany's point of view, and it is an outstanding idea from Russia's point of view. Germany needs natural gas, which the Russians have in abundance, and the Russians need technology and expertise, both of which Germany has to spare. Putin knows the Germans well enough to understand their fear and distrust of Russia. But he also knows them well enough to realize that they have outgrown the postwar world, are facing serious economic

problems of their own, and need Russian resources.

In addition, significant population decline will soon affect Germany's industrial plant, as labor shortage, combined with aging population, creates a formula for economic disaster. Even with its own decline, Russia will still have a surplus of labor that Germany can utilize, both by importing Russian workers and by moving production to Russia. Though Russia is also undergoing a decline in population, since it has such a weak economy focused on primary commodities, in effect it still has a surplus workforce.

On the other hand, if the Russians want to move beyond simply exporting energy and grain and develop a modern industrial economy, they need technology and capital, and the Germans have both of those. The Germans want workers to man their factories and natural resources to fuel their economy. German businesses of all sizes are already deeply involved in Russia, adding to the new reality of a Moscow-Berlin relationship that soon will be the pivot of Europe, more dynamic if not more significant than the other relationships each country has. With France at Germany's back – tied there by economic interests – Russia will move closer to the European core, setting off a new dynamic in the EU.

Germany and US

US relations with both Russia and Germany are changing. Russia's growing presence to the east of European peninsula threatens American interests. Also, the more the US sees its global interests dragging into wars in places like Afghanistan, the more Germany wants to distance itself from its Cold War ally. The greater the US level of concern about Russia, the greater the distance between the Germans and US. The sixty-five year relationship that began at the end of World War II probably will not remain unchanged.

Germany can afford to distance itself from US, in part because its traditional problem of being squeezed from both sides is gone – it has generally a close and friendly relationship with France. Germany no longer bothers Russia too much, and Poland can act as a buffer.

The decline in the relationship with US also contributed from the fact that Germany is an exporting country, and US is a major non-European customer, the Obama administration created a stimulus package to get the American

economy out of recession, but the Germans took no such measures. Instead they relied on the American stimulus to generate demand for German products. This meant that US went into debt to jump-start its economy while the Germans got a free ride in the point of view of the Americans.

Germany and China

Germany plays a leading role in shaping relations between China and Europe. It is by far China's largest European trade partner, with combined imports and exports equalled to China's trade with Britain, France and Italy combined. Germany is also the main supplier of technology to China and a major source of investment and development aid. Over the past 30 years, political trust and cooperation steadily improved between the two countries. Even during the difficult times of the 1990s, Germany sought to maintain good relations with China, the two countries defined their relationship as "a partnership associated with global responsibility."

But since 2005, with emerging imbalances in China-Germany economic relations, complex changes in the international environment, and political changes in Germany, frictions have emerged. In September 2007, relations between the two countries were severely damaged when Chancellor Angela Merkel met with the Dalai Lama. But since early 2008 when Germany took a clear-cut stand on the Tibet issue, relations have been back on track.

During 2009, two sides have generally maintained positive relations and there have been a number of clear highlights. During a visit to Germany by Premier Wen Jiabao the two sides concluded important agreements on climate change, and scientific and technological cooperation. And despite the global financial crisis, which cut trade volume between the two countries by 12.3 percent, Germany maintains a favorable balance of trade with China.

However, it would be wrong to say disputes and frictions have entirely disappeared. In general, disputes and friction have their root cause in the different political systems, histories, cultures and traditions of the two countries.

Conclusion

There is, actually, no simple conclusion as to where Germany is heading in

terms of international relations. The only safe observation at present is that military aggressive is no longer in vogue with Germany, as it prefers leveraging on its core competences in technology, politics and finances to maintain good international relations. However, as to the question whether Germany will one day use these measures to become an aggressive nation it once was during the times of Otto Von Bismarck and Adolf Hitler, only time will tell.

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Audi AG – In Search of Excellence

Introduction

When it comes to selecting an industry that can best demonstrate Germany's competence in engineering and innovation, automotive industry stands out as an obvious choice, since Germany is one of the top 4 automotive manufacturers in the world. Of which, six German companies dominate the automotive industry in the country: Volkswagen AG, BMW AG, Daimler AG, Dr. Ing. h.c. F. Porsche AG, Adam Opel AG and Ford-Werke GmbH. Amongst all, Audi is selected to be studied amongst all automotive manufacturers, an overview of the company is herewith illustrated, leading to a broad-stroke view of its company strategy and the formula supporting their global ambition, then zooming into the China business, ultimately with the hope of inspiring possible topics to be explored during the company visit.

Company Overview

Audi's hundred-year tale is told back in 1899 where one of the founders, August Horch, built his first car. The key milestone appeared in its history timeline is 1932 though, as its four ring emblem appeared that symbolizes the merger of four independent vehicle manufacturers (Audi, DKW, Horch and Wanderer).

Since then under Audi AG, comprising two brands Audi and the Italian brand Lamborghini, became one of the world's leading automotive manufacturers in the premium and supercar segments. Its major shareholder is Volkswagen AG and controls around 99.55% of the share capital.

Headquartered in Ingolstadt, production plants are located in both in Germany (Ingolstadt and Neckarsulm) and internationally (Brussels in Belgium, Győr in Hungary, Bratislava in Slovakia and Martorell in Spain). Part of the production is also done with a Volkswagen Group joint venture plant known as Shanghai Volkswagen Automotive Co Ltd since 1984, with second plant FAW-Volkswagen Automotive Co Ltd in Changchun which started production in 1991.

At present the Chairman of the Board is Mr Rupert Stadler, with close to

60,000 staff within the group in 2010.

Corporate Vision and Performance

Audi AG envisions to become the number one brand in the premium segment of the automotive market. It lives by its philosophy as orchestrated in their brand essence “Vorsprung durch Technik”, which highlights their brand values of sportiness, sophistication and progressiveness. Their mission is to delight customers worldwide, via their expertise, passion and agility, providing the best brand experience ever, via innovative and emotional products. Through their progressive and forward-thinking management approach, they create competitive edge in terms of four aspects: superior financial strength, continuous growth, image leader and most attractive employer. And by far, the business results in Fiscal 2010 and the first quarter this year have borne fruits, putting them in a favourable position in achieving the above target.

In terms of financial strength, with rising global consumer demand after the financial crisis, and an attractive model portfolio, the Audi brand has sold 1,092,411 vehicles in Fiscal 2010 in over 80 markets, where aside from Germany as key market with 21% share, China market comes in strong, with sales nearly on par with Germany (per chart below). Audi AG continued to increase revenue by 27.3% in first quarter 2011, best ever in history.

Sales of Audi vehicles by region	2010	Share in percent
Germany	229,157	21.0
Europe without Germany	418,474	38.3
China (incl. Hong Kong)	227,938	20.9
USA	101,629	9.3
Other	115,213	10.5
Total	1,092,411	100.0

The Audi Group also increased its revenue to EUR35.4 bilion the same year, demonstrating a 19% growth and by far the highest level yet in the Company's 100 year history.

In the value chain aspect, Audi AG consistently focuses on improving processes and cost structures, with the ultimate aim of optimizing productivity. Thus bottomline boasts more than double-fold increase with an operating profit

of EUR3.3 billion as the highest in Audi history.

In terms of continued growth, in the first four months this year, 87,788 cars were already sold in China, an increase of 23.5% versus year ago, China now effectively is Audi's most important sales market. With the various product innovations lining up for launch, Audi is set to achieve its target of 1.2 million cars delivery.

Audi also lives up to its claim as an attractive employer, guaranteeing at least 2,200 new jobs this year. What is more, due to the fact that Audi emphasizes on corporate responsibility, thus it announces plans to hire 1,200 specialists in electric mobility and lightweight design with the aim of lowering energy consumption in the long run.

Last but not the least, on stock exchange front, Audi is trading at EUR621.10 as of May 13, 2011.



Audi's global ambition with its formula of success

Audi can always step on the gas before it's boom time, keeping its problems aside and speed past its rivals at maximum acceleration. Audi sees the lull amidst the recent financial crisis as a glittering opportunity to grab where it could race past rivals Mercedes and BMW to target the cream of the automotive market.

Rewind to a couple of years earlier and Audi still sported lofty ambitions. It was prime time when the likes of BMW and Mercedes were ruling the luxury roost and Toyota was in the game with its Lexus. Audi was barely visible as it sold around 100,000 vehicles a year, around the same period when its rivals were scoring at thrice the volume in sales. Audi had its share of problems with its distribution too as it was trying to revamp its sales points that were cluttered with cars from Volkswagen and Porsche alike, never managing to get a distinction that could mark Audi apart from the rest to lure the car connoisseurs. Audi's product quality was also a concern as its scores in Customer Satisfaction surveys were at par or below industry average, an element that threatened to erode brand value. Not anymore.

If Audi's promotions and advertisements are any indication of the luxury car maker's health and attitude, they are bold and bubbling with confidence in its revived product line. Audi has been spending rather lavishly this recession on television ads and Super Bowl spots that feature the car announcing its hostile intentions in taking the place of rivals BMW and Mercedes. Audi is also betting big on its Diesel versions in the US, hinting on fuel economy in a market that is more used to gasoline and is gearing up towards the hybrid. And Audi wants to put up a bright face to its luxury customers, prodding its distributors to invest in a make over of showrooms.

Audi is harboring global ambitions, having already made its mark in Europe, gaining market share. "The future has many names: For the weak, it means the unattainable. For the fearful, it means the unknown. For the courageous, it means opportunity", quoted by Audi's chairman Rupert Stadler in a recent speech, "It is this opportunity that motivates us at Audi".

Audi's China story

The story of Audi in China began with a license agreement between Audi and FAW for assembly of the Audi 100 from imported parts kits. This included a transfer of technology in production and planning, building a customer service organization and training of Chinese employees. In 1995, Volkswagen and FAW signed a Letter of Intent, which includes the Audi production facility in the joint venture integrated. A year later, the Audi 200 began rolling off the assembly line, which was produced with 60 percent in China. In 2000, Audi and FAW-VW introduced the first Audi A6 on the market. Mid-2005 was followed by the next generation of the A6L, the beginning of 2009, the first long-wheelbase in the premium B segment in China, the A4L.

In 2009 the company increased with a new assembly building its production capacity to 300,000 vehicles. The dealer network of 157 dealers in 106 cities will be expanded by 2013 to more than 400 companies.

The success of the brand among the Chinese customers also confirmed by recent studies by market research firm JD Power: No other premium manufacturer persuaded the Chinese customers, according to "Customer Service Index (CSI) with its range of services like the AUDI AG. Also in the Sales Satisfaction Index (SSI), the Chinese chose Audi new vehicle sales in the first place.

Topic to be focused during field trip visit

China is replacing Germany as the biggest and most important market, it will be fruitful to explore and learn from Audi directly their successful story in China. Topics may include their product, marketing, technology as well as partnering strategies.

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