

Name _____

Business Management

Content Reading: VW

Learning Target: *I can describe impact of losing consumer trust based on poor ethical decisions.*

Read the following and underline the important points.



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VW Cheats Environmental Expectations

BACKGROUND

Although the impact of technology has created benefits for businesses and consumers alike, it has also provided a greater opportunity to cheat ethical and legal requirements. Volkswagen, once lauded for its green reputation, experienced a devastating blow after it was discovered the company had purposefully fooled regulators and consumers with its emissions testing. Volkswagen used a "defeat device" in its software that changed the vehicle's performance depending upon the environment. For instance, the software was able to detect when vehicles were undergoing emissions testing. During this testing, the software made the vehicles run below performance, which released fewer emissions and met requirements. However, on the road the cars ran at maximum performance and gave off up to 40 times the allowable limit for emissions in the United States.

Thus far, Volkswagen estimates that 11 million vehicles in the United States and Europe have been affected by this defeat device. Until the scandal broke, VW had promoted itself as a more eco-friendly company. Its commercials featured Volkswagen rally driver and host on *Top Gear USA* Tanner Foust driving elderly women around town in a TDI Volkswagen to dispel the myth that diesel is slow. As a result of its marketing, Volkswagen made large in-roads in gaining acceptance for its clean diesel vehicles, even though many car buyers had a negative view of diesel previously. This green image was highly beneficial for Volkswagen as consumer values are changing to value greener products.

While technology allowed VW to cheat the system, it also played a large part in its downfall. Discovery began when European testers noticed that VW vehicles did not perform as well on emissions testing on the road as they did in the lab. They commissioned a team in West Virginia to conduct research on VW vehicles made for Americans because the United States has some of the toughest emissions standards in the world. The team in West Virginia used a portable emission system measurement to measure emissions on the road. They found that the measurements did not nearly match up with what was shown in lab tests. The results were reported to the Environmental Protection Agency, which confronted Volkswagen with the evidence. Volkswagen eventually admitted it had designed and installed a defeat device that could detect when the vehicle was being tested and modify its performance levels so that it would meet emissions requirements.

IMPACT

As a result, Volkswagen's CEO resigned and governments are demanding answers. Such a fraud does not only violate ethical standards but also laws and regulation in Europe and the United States. The company will have to pay \$6.5 billion to repair and retrofit the 11 million affected vehicles, and it will likely pay hefty fines for breaking the law. Those who knew about or were responsible for the defeat device's installation could face jail time.

Perhaps the worst impact the scandal has caused has been to VW's reputation. Many VW customers claim they purchased the cars because they believed them to be better for the environment and felt utterly betrayed the company. Consumer rights were violated because consumers did not have accurate information, meaning they were not able to make informed purchasing decisions. Lawsuits are being filed against VW for the deception. Its reputation for sustainability has been shattered, and two awards it had been given for "Green Car of the Year" were pulled.

Volkswagen has begun to take steps to restore consumer trust. For instance, it is recalling vehicles and offering a \$1,000 goodwill package to its American car owners. Yet even with incentives, Volkswagen will have to face this loss of goodwill for years to come. Because it is the world's second-largest carmaker operating in an oligopoly, other global car companies may benefit from the scandal and gain market share from Volkswagen. At same time, while they might benefit from a competitive standpoint, VW's conduct has caused problems for the industry as a whole. Consumers are now questioning the environmental claims of other car brands, and automakers will have to work harder to prove that their claims are accurate. Consumer trust is easily lost and is not restored overnight.

DISCUSSION QUESTIONS

1. Describe some ways Volkswagen ignored the six forces in the marketing environment. How did it violate its responsibilities to competitors, consumers, and regulators?
2. What overall impact do you think the scandal will have for Volkswagen competitors? Will it help them or harm them? Why?
3. Do you believe this scandal will lead to tougher scrutiny of companies' environmental claims in the future? Why or why not?

Write a five sentence minimum paragraph on the impact VW will have on the automotive industry going forward.
