

LEGAL/PRIVACY

## Volkswagen recall expands, puts CEO on the hot seat

September 23, 2015



*Audi A3s from 2009-2015 have been recalled*

---

By FORREST CARDAMENIS

German automotive group Volkswagen is coming under fire for an emissions scandal that will impact millions of consumers worldwide.

**Sign up now**

**Luxury Daily**

The scandal broke a mere five months after disagreements between chairman Ferdinand Piëch and CEO Martin Winterkorn led the former to leave the company, but Mr. Winterkorn, whose two-year contract renewal is up for vote on Sept. 25, may be next. Large scandals sometimes cause organizational shake-ups, with executives who may or may not share responsibility being scapegoated so the brand can clean up its image.

“You cannot really assume anything,” said Rob Frankel, branding strategist & expert at Frankel & Anderson, Los Angeles. “You cannot assume this issue played into his leaving or that Winterkorn's head will roll over this one issue.

“One thing you can be sure of is that the auto industry is highly political and very competitive both inside and outside the company. It could be nothing more than corporate infighting,” he said.

Mr. Frankel is not associated with Volkswagen, but agreed to comment as an industry

expert.

**Volkswagen** and its subsidiaries did not respond to request for comment.

### Total recall

Original reports alleged that the company, which includes luxury automakers Porsche, Audi, Bentley Motors and Bugatti, would recall 500,000 vehicles that had software installed to cut emissions by over 95 percent during emissions tests compared to regular performance, but news has recently surfaced that the recall would extend to almost 11 million vehicles.

Volkswagen has set aside \$7.3 billion to pay for the scandal, an amount equivalent to nearly half of last year's profits, and the Environmental Protection Agency could fine the company up to \$37,500 for each of the 482,000, totaling nearly \$18 billion.



*Lamborghini is owned by Audi but has not been targeted by the recall*

Additionally, Volkswagen stock has dropped over 20 percent since the scandal, devaluing the company by nearly \$25 billion more.

Of course, the damage wrought by the scandal extends far beyond immediate finances. Luxury brands depend on being seen as innovators whose products display excellent craftsmanship, and consumers, particularly young demographics, increasingly expect brands to showcase environmental and social values.

"Besides the cost of having to recall 11,000,000 vehicles, the EPA will want their \$50MM in subsidies back plus a lot more in punitive damages—probably billions—for purposely defrauding the United States citizens and their government," said Bob Prosser, CEO of **Auto World Marketing**.

Although Porsche, Bugatti, Bentley and Audi-owned Lamborghini may operate independently and even in different countries than Volkswagen, hence a lack of recalls affecting their vehicles, their affiliation with Volkswagen is still likely to steer customers clear of those brands.

In two unrelated incidents, Porsche recalled all 785 of its 911 GT3 in February 2014 after two caught fire due to engine problems ([see story](#)), and nine months later the automaker took precautionary measures with a voluntary recall after an internal check found a faulty

hood lock bracket on 4,428 two-door models worldwide ([see story](#)).



*Porsche, although unaffected by this recall, issued two last year*

“If it is true that the fish rots from the head, you can expect that just about every brand touched by Volkswagen will undergo some sort of internal check up, if only to head off any further press speculation,” Mr. Frankel said. “Many sub-brands are wholly independent of their master brand, but this is more of a publicity concern for them than anything.”

This is not the first time a reputable brand has suffered in value and reputation as a result of a major recall. Beginning in 2009, Toyota issued a series of recalls lasting years related to faulty brakes and unintended acceleration.

Although the scale of the recalls is similar, they differ in that Volkswagen’s may be more blatant, appearing to the public like a deliberate manipulation designed to save money, but which is also nonfatal with less visible consequences.



*Bentley's British make may insulate it slightly from publicity problems*

“[It is] likely that the more environmentally sensitive [the country], the greater the damage,” Mr. Frankel said. “China and India probably would care less about it than Sweden and Denmark for both environmental and political/business reasons.”

## Scandal

With the exception of the Audi A3, Volkswagen's luxury brands have not been forced to recall vehicles, but other luxury automakers have been forced to initiate recalls recently.

Last July, German automaker BMW recalled 1.6 million 3 Series vehicles produced between 1999 and 2006 as a measure of caution.

The airbag in the targeted vehicle could potentially explode in certain circumstances, and the brand wants to remove all likelihood of a crisis. Following the rolling crisis at General Motors, automakers everywhere must be extra diligent about vehicle safety ([see story](#)).

Other times, brands are able to completely recover from scandals, with consumers eventually forgetting them altogether.

In early 2012, the discovery that Google had been tracking the Web activity of iPhone and iPad users on Safari without permission had the company in hot water, with speculation that it would end up costing Google both in terms of its reputation as well as monetarily.

The issue came to light in late January 2012 when a Stanford University researcher's study found that Google's DoubleClick and three other advertising companies – Vibrant Media, WPP's Media Innovation Group and Gannett's PointRoll – have been circumventing a privacy setting in the Safari browser that blocks third-party cookies, which are used to track users' activities as they surf the Web. Safari is the main browser on the iPhone and iPad ([see story](#)).

Still, automotive scandals tend not to go away so easily, as the recent past has shown.

"Volkswagen will suffer about the same brand credibility damage as Firestone did when they initially denied culpability for their tires blowing up," Mr. Frankel said. "It took them years to come back. Especially with no real brand management talent aboard, Volkswagen is in for some tough times.

"It is a big thing. Bad press is one thing. Losing 30 percent of capital value is real money. It has a domino effect," he said. "When the market loses faith, credit, financing, sales and almost everything else becomes more difficult."

That this one is less the result of shortcuts going wrong or incompetent engineering only makes it more harmful to the brand.

"VW's planned cheating of emission rules was not life threatening, but this is in some ways much worse," Mr. Prosser said. "This isn't making a mistake or building a defective product. This isn't about finding a problem and covering it up. This is about willful deceit [and is] a corporate policy to violate the law.

The CEO, Martin Winterkorn, should resign immediately and not be forced out—which he claims will not happen," Mr. Prosser said. If he hides behind plausible deniability, claiming he and his office did not know of this plan to fool the government regulators—a plan which takes far more than the efforts of one or two rogue engineers—then he is guilty

of not running a tight ship. Either way, he needs to symbolically take the hit."

## Final Take

*Forrest Cardamenis, editorial assistant on Luxury Daily, New York*

Embedded Video: <https://www.youtube.com/embed/2eOR0Lrz3E8>

---

© Napean LLC. All rights reserved.

Luxury Daily is published each business day. Thank you for reading us. Your **feedback** is welcome.