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Volkswagen to Cut Jobs in Brazil

Volkswagen to Cut Jobs in Brazil as Stronger Real Hurts Exports

Volkswagen AG, Europe's largest carmaker, plans to cut thousands of jobs in Brazil as the country's strengthening currency makes its exports unprofitable.

The unit, which sells 42 percent of its output abroad, said the job cuts will reduce labor costs by 25 percent in the production of new car models. Should the firings take place this year, the unit will post its first operating profit since 2004, said Hans-Christian Maergner, president of VW's Brazilian operation.

“The results of the Brazilian company are still not at a satisfactory level,'' Chief Executive Officer Bernd Pischetsrieder told shareholders at the annual meeting today in Hamburg. ``This is because of the strong real and the resulting export losses. Capacity has to be adjusted to reflect this situation.''

VW, Brazil's fifth-largest exporter, forecasts its exports from the country will fall 40 percent through 2008 while output will drop by 100,000 units after the currency gained 71 percent against the dollar since 2003. Exports would again be profitable at an exchange rate from 3.1 reais to 2.9 reais, Maergner said.

Higher labor and material costs have also eaten into profits margins on Fox compact cars, which are made in the plant in Sao Bernardo do Campo, in the metropolitan area of Sao Paulo, Maergner said.

The company is basing its reorganization plans on a foreign exchange-rate forecast of 2.25 reais per dollar through 2008, Maergner said. Sales of VW in Brazil will keep rising in coming years, he said.

Union Talks

Volkswagen shares in Frankfurt fell 87 cents, or 1.4 percent, to 60.30 euros. The stock has gained 36 percent this year, compared with a 10.4 percent gain by Dax index, valuing the company at 21.5 billion euros ($27.1 billion).

The firings, which will have to be negotiated with unions, would avert plant shutdowns in Brazil, he said. VW employs 21,000 people in the country.

VW has said it will eliminate 5,773 jobs, or 27 percent of its payroll, in three Brazilian plants in the next three years, according to a spokeswoman for the Metalworkers Union of the ABC region in the metropolitan area of Sao Paulo. The union represents workers at the company's Sao Bernardo plant.

Maergner declined to comment about the number of firings at a press conference today in Sao Paulo.

The company also plans to shift 2,300 positions to outside contractors at the Sao Bernardo plant in departments such as quality control and security, she said. The unit plans to cut another 25 percent of labor costs in the production of new cars after the job cuts, she added.

Reorganization

The union has no plans to strike against the plan, she said. Unions representing workers at 44 VW plants around the world will meet on May 8 in Germany to discuss the job cuts in Brazil and in Europe and devise a plan to avert the firings, she said.

Pischetsrieder said today a ``far-reaching'' reorganization of VW is necessary to ensure the company remains the largest automaker in Europe. The company is seeking to eliminate as many as 20,000 European positions in an effort to more than quadruple 2004's pretax profit by 2008.

Wolfsburg, Germany-based Volkswagen in September began offering early retirement and severance packages to encourage thousands of German workers to leave voluntarily.

The move was part of Pischetsrieder's effort to cut positions while meeting the terms of a November 2004 labor accord guaranteeing jobs through 2011 in exchange for a wage freeze that will eventually save 2 billion euros annually.

Export Forecasts

VW Brazil's unit forecasts exports will drop to 175,000 units this year from 256,494 units last year as the unit plans to increase prices to recover margins on some of its models, Maergner said. The company forecasts exports of 156,000 units in 2007 and 166,000 n 2008, he said.

The reduction in exports will prompt Brazil's output to fall 514,000 units in 2008 from 614,248 in 2005, the company said.

The unit has cut about 4,000 workers in the country since 2003 and reduced investment to only 2 percent of Brazilian sales from 7 percent as it lost market share to companies such as Fiat SpA and General Motors Corp. in the country, Maergner said.

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Q1 2006 : Volkswagen Quadruples its Profit

Volkswagen Quadruples its Net Profit for Q1 2006

by Trevor Hofmann / American Auto Press

Four Times Growth Isnt Good Enough for Auto Market Analysts

Just because some automakers are forecasting dark wintry days ahead despite summer being just around the corner, doesnt mean all manufacturers are suffering. Actually, many of the Asian and some European brands are posting record profits month over month, and while Volkswagen Group isnt quite yet among these record breakers, nor is it even noticeably out of the red, the first quarter of 2006 is definitely looking up.

Its difficult to say if CEO Bernd Pischetsrieder and the rest of Volkswagen AGs executive staff are feeling smug after first quarter results that show that the groups net profit has quadrupled compared the same time last year, thanks to strong retail sales in a bullish global car market, because the result fell short of what analysts had expected the German automaker would achieve, and therefore its stock fell 3.8 percent to 62.26 euros ($77.82).

Altogether, VW AGs net profit shot up to 327 million euros ($411 million) from 70 million euros ($88 million) in Q1 of 2005, while revenue is up some 21 percent to 25.34 billion euros ($31.9 billion). How much was it short from expectations? Analysts, surveyed by Dow Jones Newswires, had their sights on an additional 112 million euros ($141 million), or a total of 439 million euros ($552 million).

So what went wrong? In a statement, Volkswagen stated that the year started off well: "The most important automotive markets began 2006 with a positive underlying trend, although the continued risks for automotive demand posed by the economic environment are not insignificant."

Volkswagen seems moderately positive about its future growth: "Overall, we are forecasting a modest increase in global passenger car sales," the statement continued. "We are predicting stable automotive demand in the U.S. and Western European markets, while the German passenger car market is expected to grow slightly from a low basis."

There are at least two ways to look at VW groups Q1 results; 1) a net profit four times higher than the previous year is a great deal better than what some automakers are facing, loss after loss, or 2) with its high number of all-new models Volkswagen AG needs to be tearing up the sales charts now because, as the new core models age, sales will probably subside. Integral to the automakers recent retail activity is the Volkswagen brand, which has been enjoying an upward bounce in popularity thanks to all-new 2006 Jetta and Passat models, plus, here at home, the completely redesigned Golf (which is soon to be renamed Rabbit), capped off with the sporty GTI version, but VW AG, the parent company, has seen its profits rise in more areas than just its namesake brand.

The German automaker was one of the most prolific purchasers of brands in the late 80s and early 90s, when any car company worth its salt was snapping up anything and everything with a modicum of brand equity. GM bought Saab, the rights to Hummer and created Saturn, all around the same time it picked up Lotus and then unloaded it on Malaysian economy carmaker Proton. Chrysler Group, in the pre-Daimler days, nabbed Lamborghini and Maserati, not to mention much of Mitsubishi, letting the two luxury brands go when money was needed for internal investment. BMW purchased Rover Group, and its multiple nameplates, before selling one of its best, Land Rover, to Ford Motor Company, which was on the most aggressive brand procurement campaign of them all, next to Volkswagen, having previously picked up Aston Martin, Jaguar, and Volvo, plus a substantial portion of Mazda. Theres more to this story than there is paper to write it on, but suffice to say that few automakers had what now seems to be the foresight to abstain from jumping on the brand auction bandwagon, and now with hindsight at hand, not many have made money in the exercise. Interestingly, Toyota, the most profitable carmaker of all, was then criticized for not buying into the trend.

Volkswagen, mind you, has done well with some of its ultra-premium brands. Luxury vehicles are enjoying tremendous popularity as of late, despite high fuel prices, and VWs top-line brands are benefiting. If youre not up on the details, the German automaker is only one brand shy from owning as many individual nameplates as General Motors, and together with its affiliated Audi brand group, has collected as many luxury marques as Ford. Specifically, the Volkswagen brand group oversees Volkswagen, or VW branded cars (German), Skoda (Czech), Bentley (British) and Bugatti (French) nameplates and the Audi brand group comprises the Audi (German), SEAT (Spanish) and Lamborghini (Italian) marques. Confusing things further, Porsche, yes the little rear-engine "niche" sports car manufacturer started by the very man who gave Volkwagen its world-dominating Beetle, just purchased close to 20 percent of VW AG, so, in a reverse-strategy sort of way, Stuttgarts cars are also part of the family - or at least second cousins once removed.

If you think Volkswagen Groups near pan-European ownership is impressive, take into consideration that it operates 44 production plants in 11 European countries and an additional 7 countries in the Americas, Asia and Africa. Globally, nearly 345,000 employees produce over 21,500 vehicles, or are involved in vehicle-related services, each working day. Lastly, the Volkswagen Group sells its vehicles in more than 150 countries, most models of which are not available in the U.S.

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