

VW's Horn must use his candor wisely

U.S. chief will face lawmakers this week



Michael Horn

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Automotive News

October 5, 2015 - 12:01 am ET

WASHINGTON -- Last fall, before Volkswagen's national dealer meeting in Atlanta, Mike Schwartz saw a glimpse of the candor that VW of America CEO Michael Horn has become known for among dealers.

Schwartz, general manager of Galpin Volkswagen near Los Angeles, was among a small group of dealers invited to take an early test drive of two Golf models and offer feedback to visiting executives from Germany. He recalled how Horn, 52, gave his boss at the time, VW global sales chief

Christian Klingler, a polite but clear dressing-down for VW's past mistakes in the U.S., prodding him to listen to American dealers.

"He was very transparent about what our needs were and where he thought that VW had screwed up in this market," Schwartz recalled. "It was refreshing to hear the CEO go back to Germany -- really, to go back to dad and say, 'Dad, you screwed up.'"

Horn's candor could be his best asset or his Achilles' heel as he assumes the burden of being VW's public face in the U.S., a key pillar in its hopes for a recovery from the diesel emissions scandal.

Horn -- who emerged from VW's management shake-up with his own job intact but under a new organizational structure -- is set to testify this week at a hearing before lawmakers on Capitol Hill, which has been the scene of humiliating interrogations of top executives from General Motors, Toyota, Takata, Honda and Chrysler in the past few years.

The setting could be a challenge for the blunt Horn as he tries to convey VW's contrition to the satisfaction of U.S. lawmakers without alienating his new bosses at headquarters or further tarnishing the VW name.

Horn, 52, is known for going off-script, abandoning the safety of talking points penned by lawyers and PR handlers. That tendency, says one former VW insider who worked with him, while endearing, has its downsides.

"He always said to me 'I'm not a fake person,'" the insider said.

Just days after VW's emissions violations were disclosed by the EPA last month, Horn was before an audience of reporters and VW dealers at a product unveiling. There, he avoided the cleared-by-legal language that typically follows news of corporate malfeasance in favor of a plain-English apology: "We have totally screwed up."

Fallout shelter

Volkswagen of America has launched several programs to help dealers manage the financial and public relations impact of its emissions violations and a stop-sale order on diesels. More could be coming, as CEO Michael Horn has promised dealers sustained support.

Sept. 21: After consulting VW's National Dealer Advisory Council, VW announces 3 financial assistance programs to stabilize near-term dealer profitability:

- **1.** Guaranteed payouts of \$300 per new car (\$600 for Passat) sold in September, the top level of VW's 3-tier volume-based bonus program
- **2.** Floorplan reimbursement for all new and certified pre-owned VW diesel models affected by the stop-sale order until a repair plan is available
- **3.** Guaranteed payouts under its customer satisfaction bonus program through the end of the year, equaling 1% of MSRP for every vehicle sold

Sept. 23: Horn sends dealers a list of talking points in a frequently-asked questions format to help dealers explain the company's situation to customers.

Sept. 25: VW of America COO Mark McNabb eases terms of bonus programs for dealership sales and service staffers. . Sept. 26: VW posts video message from Horn on an internal network for dealers.

Sept. 27: VW launches consumer-facing website with information about its emissions violations and a video apology from Horn. "While we are still gathering all the facts, it's clear that our company betrayed the trust of you, our customers, our employees, our dealers and the public," Horn said. "We have much work ahead of us, but we are committed at every level of the company to do what must be done to regain your trust."

Sept. 28: Horn announces VW dealers will receive a "discretionary fund" via wire transfer within a week. A memo from Horn says the funds are "to help you respond to your dealership's local operational and customer needs in real time. ... Please use these funds as you best see fit for your specific needs."

Oct. 1: Horn extends guaranteed maximum sales bonuses on new-car sales through October and adds \$2,000 owner loyalty incentive for new-car purchases.

Source: VW memos to dealers obtained by Automotive News

'Brutally open'

Dealers have appreciated the straight talk. It's a breath of fresh air, they say, after years of grand plans and goals that have gone sour, such as selling 800,000 VW vehicles a year by 2018.

"As VW dealers, we feel like we've been overpromised to and underdelivered to a lot," said Fred Emich, general manager of Emich Volkswagen in Denver. "Michael Horn takes the opposite approach."

And dealers say they like what he has delivered so far. Profitability, while still weak, has dramatically improved during Horn's tenure. One of his first big moves as CEO was to scrap aggressive stair-step incentives that many dealers say set unrealistic sales objectives and gutted store profits.

A German and a 25-year VW veteran, Horn has proved adept at navigating the formal and informal power structures at headquarters in Wolfsburg. Under his watch, VW shortened its product life cycles to five years from seven, secured U.S. production of the midsize crossover arriving in 2017, launched an engineering and product planning center with 200 engineers in Chattanooga, and confirmed a 2016 launch of the Subaru-fighting Golf SportWagen Alltrack.

According to one VW insider, Horn's willingness to be blunt is a big reason why. "He talks to Winterkorn, Klingler, all the big guns, and he's brutally open," the insider said. "At the end of the day, this is the reason why they kept him. He's open ... and he gets things done."

Yet while Horn's profile has been magnified by the scandal, it's still unclear whether his influence will be. Starting Nov. 1, he will have a new overseer at VW's Herndon, Va., headquarters, Skoda chief Winfried Vahland, who takes over as CEO of the new Volkswagen North America Region.

While his exact duties have not been spelled out, Vahland will likely oversee all aspects of VW's North American business, including its

sprawling production site in Puebla, Mexico, the plant in Chattanooga, and the sales and marketing operations of the U.S., Mexico and Canada.

The VW insider said the relationship between Horn and Vahland will be "really tricky," as both are very confident executives. While Horn has established himself as an ally of dealers and commands wide respect in Germany, Vahland has the longer track record of building brands, with VW in China and with Skoda in Europe.



The Golf SportWagen Alltrack was confirmed for a 2016 U.S. launch on Michael Horn's watch.

Financial aid

Last month, dealers rallied to Horn's defense when it appeared he might become another casualty of the scandal. Now they're counting on him to continue delivering for them as the work to rebuild the trust of U.S. regulators, customers and the public begins.

Horn, for his part, has moved swiftly to help dealers survive what could be a prolonged sales slump. (VW declined to make him available for an interview last week.)

VW planned to wire its roughly 650 U.S. retailers a lump sum of cash by the end of last week, according to a Sept. 28 memo from Horn to dealer principals obtained by *Automotive News*. Horn said dealers could use the "discretionary fund" as they saw fit "to help you respond to your dealership's local operational and customer needs in real time." Dealers declined to comment on the size of the payouts, but they vary by dealer and can amount to tens of thousands of dollars, *Automotive News* has learned.

Those payments follow other financial aid that VW rolled out in the wake of the emissions violations, including more generous sales bonuses and floorplan reimbursements for cars subject to stop-sale orders.

"Now, more than ever our business relationship must be strong, so we can together get back on track in the United States," Horn wrote in a Sept. 23 memo to VW dealers and general managers.

Dealers say they need to see more of Horn's straight talk directed at his new bosses. The challenger brand is partway through a plan to invest \$7 billion in North America by 2019. A crossover blitz in 2017 kicks off a product overhaul in which most of its lineup will be redesigned within the next two years. Those efforts will be for naught if VW allows the fallout from the emissions scandal to drive away business, says Michael Morais, president of Open Road Auto Group, which has 16 dealerships in New York and New Jersey, including two VW stores.

"We need him to say, 'We need to let these guys in North America get the job done, and it's going to require an unreasonable amount of money,'" Morais said. "It's not going to make sense on paper, but it's going to make sense when we get this all behind us with the network intact."

He added: "If they don't stop and address this foundation in North America right now, nothing on top of it will ever sustain."

