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AUTOS INDUSTRY

Volkswagen Supercharges Electric Car Push as Profits Weaken

The German auto maker expects to produce 22 million electric vehicles over the next decade

Volkswagen CEO Herbert Diess at the annual news conference at the Volkswagen plant in Wolfsburg, Germany, on Tuesday.
PHOTO: FABIAN BIMMER/REUTERS

By William Boston

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WOLFSBURG, Germany— Volkswagen AG VOW3 **-1.83%** ▼ said Tuesday it will accelerate development and production of electric vehicles, increasing the German car maker's bet on new technology as profitability in China and at its core Volkswagen-brand unit is slipping.

Other auto makers are making similar strategic moves in the face of ever-tougher emissions regulation and a shift in demand from ownership to car-sharing that is expected to boost demand for electric-vehicle fleets. But the transformation is expensive, forcing many auto makers to cut costs and form partnerships with rivals to shoulder the heavy investment in innovation.

Discussing the company's 2018 earnings with journalists, Volkswagen CEO Herbert Diess said the auto maker wouldn't be able to avoid layoffs as it ramps up electrification in coming years. Production of an electric vehicle, he said, required 30% less labor than that of an equivalent combustion model.

The company later backpedaled on Mr. Diess's comment about job cuts, saying an agreement with the IG Metall trade union barring forced layoffs until 2025 remains valid. The company didn't rule out layoffs after the agreement expires.

Volkswagen on Tuesday announced plans to roll out 70 new electric models across its array of automotive brands that includes VW, Porsche, Audi, Skoda, Seat, Bentley, Bugatti and Lamborghini, up from previous plans for 50 new models by 2028.

The company published preliminary 2018 results last month, saying that its operating profit—closely followed by industry analysts—had risen 0.7% to €13.9 billion ($15.7 billion). Earnings fell at the VW-brand unit, it biggest business by sales, and at its Audi luxury unit, a key profit contributor.

Against the backdrop of slowing profits and rising investment in electric-vehicle and self-driving technology, Volkswagen is stepping up efforts to lower costs.

Volkswagen labor representatives have said the company longer term aims to cut up to 7,000 jobs from the German workforce. Volkswagen declined to comment.

Across its brands, Volkswagen sold 10.9 million vehicles world-wide last year, generating revenue of €235.8 billion ($266 billion), up nearly 3% from 2017.

Detailed figures published Tuesday show that Volkswagen is struggling to maintain profits in key divisions. Profit from its joint ventures in China, the company's largest single market by sales, fell 2.5% to €4.6 billion last year as the once-booming Chinese economy cools and auto sales decline for the first time in years.

Volkswagen sold more than four million vehicles in China last year, most of which were built in the country.

Mr. Diess said Volkswagen is talking to its joint-venture partners in China about raising its holding to a majority share.

The Chinese government last year relaxed requirements that forced foreign auto makers to work with Chinese partners in joint ventures. BMW, the German luxury brand, raised its stake in its joint venture, prompting other manufacturers to consider doing the same.

“We will be taking a look at our Chinese joint ventures in 2019,” Mr. Diess said. “We will work this out during the course of the year and expect to have results by the end of the year or early next year.”

Audi, which competes against BMW AG and Daimler AG’s Mercedes-Benz in the luxury-car market, has suffered a series of missteps over the past year. The company’s chief executive was forced to step down after being jailed in connection with Volkswagen’s diesel-emissions scandal, a controversy that caused Audi to lose ground to BMW and Mercedes. Audi’s profit fell 7% to €4.7 billion last year on lower new-car sales.

The VW division, the home of the iconic Beetle, suffered a 2% decline in operating profit and missed its earnings target as the brand’s return on sales slipped to 3.8%, from 4.2% in the preceding year. The VW brand sold 3.7 million vehicles last year, generating revenue of €84.6 billion, up 7%.

Profit at Skoda, the company’s fast-growing Czech car brand, fell slightly, while it rose sharply at Seat, the Spanish car maker. Super-luxury brand Bentley posted a loss of €288 million due to pension-related losses and delays in producing its new Continental GT model. Oliver Blume, who as Porsche CEO is responsible for Bentley, told reporters Tuesday that a restructuring at the brand would lead to a profit in the current quarter.

The first of Volkswagen’s new electric vehicles will begin rolling off the production line at the end of this year. Porsche’s first all-electric sports car, the Taycan, has already taken preorders for more than 20,000 cars, and the brand has said it is considering expanding Taycan production.

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