

# The CFO Case Study Competition 2019

## Aalto University, Finland – Team DICE



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# Agenda and Prioritization of Scenarios

## Scoring based on urgency, financial impact and issue complexity

Priority	Scenario	Score
1.	E-Mobility strategy	4.7
2.	Strategy, structure and cost optimization	4.1
3.	Strategic sourcing of cobalt in Africa	3.9
4.	Product portfolio rationalization	3.6
5.	Paris Accord and environmental legislation	2.9

# 1st Priority: E-Mobility strategy

## Securing EVB supply is a Must-Win battle



Alternatives	Score
ACQUIRE	20
MAKE	20
PARTNER	15
OUTSOURCE	15
CONTRACT	13
LICENCE	5
REFERENCE	-6

- Acquiring is good but opportunistic strategy
  - Simultaneously pursue 'make' alternative
- Increased chances of success

- Meanwhile, Panasonic is the best supplier
- They offer quality, capacity and a good price
- Mitigate contract risk through communication

## 2<sup>nd</sup> Priority: Strategy, Structure and Cost Optimization

### Cost optimization strategy is expected to have a high NPV

<b>Situation</b>	<ul style="list-style-type: none"> <li>• Diesel-issue and sweeping changes in group management</li> <li>• Sequence of changes → questions about the strategy, structure and cost optimization</li> </ul>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>• Strategic options/approaches for long-term profitability</li> <li>• Centralization analysis</li> <li>• Divestment of segments and turning the brand focus on certain models</li> </ul>
<b>Analysis</b>	<ol style="list-style-type: none"> <li><b>1. Optimization alternative</b> <ul style="list-style-type: none"> <li>• Calculated expected savings</li> </ul> </li> <li><b>2. Divestment alternative</b> <ul style="list-style-type: none"> <li>• Compared segment profitabilities</li> </ul> </li> </ol>

### Recommendation: Cost Optimization Strategy

#### Reasoning:

#### *Cost optimization strategy – why we recommend?*

- » Expected NPV from the optimization leads to management profitability target
- » We see optimizing sales, administration and selling as a key for the long-term profitability

#### *Divestment strategy – why we do not recommend?*

- » We see this as a threat to the VW brand business and overall too risky alternative to implement.
- » Risk of losing synergies e.g. economies of scale
- » Decreased profitability faced by VW brand

#### Cost optimization strategy

**Expected NPV of optimization:**

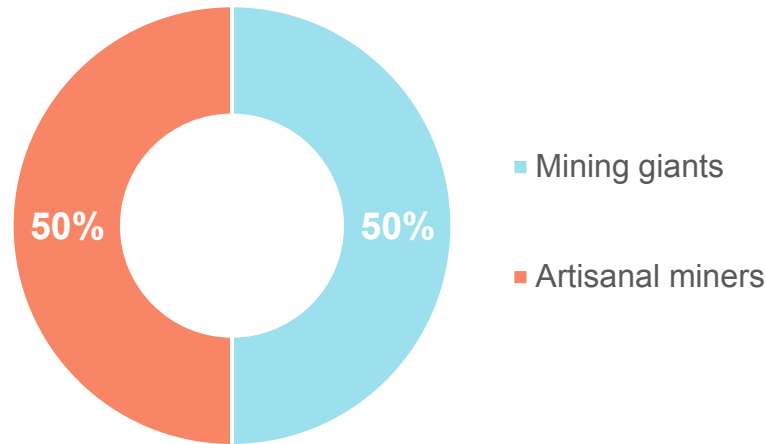
**USD 24 billion\***

Source: The Charter Quest Institute analysis. \* Calculated based on The Charter Quest Institute figures

# 3<sup>rd</sup> priority: Strategic Sourcing of Cobalt in Africa

## Securing the cobalt supply using artisanal miners while considering ethical issues

**Target: 50 % of the supply from the mining giants**

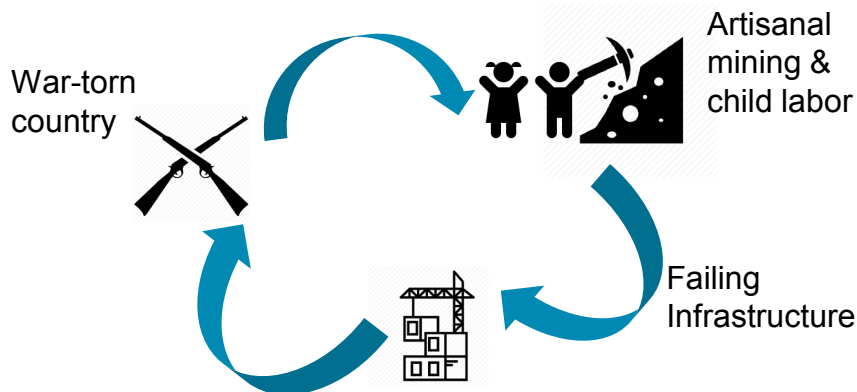


**Key recommendation points**

- » Since the mining giants won't respond to VWs minimum quantity or maximum price per unit requirement, securing 100 % of the supply from the giants won't be possible
- » Our recommendation: a bit more risk and securing smaller quantities (25-50 %) of the cobalt supply from the mining giants
- » Negotiate shorter 3-10 year contracts with mining giants to secure the price
- » Secure rest of the supply from artisanal miners taking into account corporate responsibility aspects and ethical issues

**Ethical issues: problematic supply chain**

**60 % of cobalt resources in the DRC**



**Ethical issues when using artisanal miners**

- » Artisanal miners do not comply with the many laws and standards
- » VW AG needs to carefully investigate the whole supply chain of artisanal miners and fair play to gather the needed cobalt
- » Cobalt might not yet seem a conflict mineral, but it might easily be one since the majority of the resources are located in the DRC and the future demand is likely to increase.

# 4<sup>th</sup> Priority: Product Portfolio Rationalisation

## Rationalisation of pricing is expected to boost sales volumes

<b>Situation</b>	<ul style="list-style-type: none"> <li>• New product divisions (6) were formed after sweeping changes</li> <li>• VW AG's supervisory board wants to further re-organise the passenger car brands, trucks and buses to improve competitiveness</li> </ul>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>• Reduce the price of volume range in key emerging markets</li> <li>• Identify which car models are loss-making and cease production</li> </ul>
<b>Analysis</b>	<ol style="list-style-type: none"> <li>1. Identify targeted markets</li> <li>2. Find price elasticity of the demand</li> <li>3. Estimate the optimal amount of price reduction</li> <li>4. Identify loss-making car models</li> </ol>

### Recommendation: Rationalise pricing

#### Reasoning:

#### *Portfolio rationalisation – why we recommend?*

- » All three of the new car model segments become profitable after price reductions
- » Sales volumes go up by ~33% while prices only go down by ~25%
- » Further cost savings can be achieved by decreasing overheads via centralization of certain support functions

#### *Portfolio rationalisation – word of caution*

- » Extensive internal cost analysis especially regarding the overheads should be performed before giving more accurate estimates on possible cost savings
- » Numerical market assumptions (derived from respected sources) give best estimates but are subject to slight inaccuracy as compared to actual empirical market data

### Product Portfolio Rationalisation

**Expected increase in sales volume:**

**33 %**

## 5th Paris Accord and environmental legislation

### Start addressing the issue but prepare to pay fines

	Alternative	NPV
1.	Brand new engines	-2,006 M€
2.	Modified engines	1,263 M€
3.	Take no action	3,848 M€

- NPV calculations suggest to not take action
- However, synergies with E-mobility strategy are not accounted for
- Alternative two balances the two extremes

