

VW diesel scandal cost German carmakers plenty

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The Volkswagen diesel emissions scandal pulled down sales for other German car companies by about 105,000 vehicles worth \$5.2 billion in 2016, according to a study that looked at how much collective reputation

matters.

German automakers routinely touted "German engineering" in their U.S. advertising and marketing, which helped to create a natural [reputation](#) group in consumers' minds.

So when the VW [emissions scandal](#) broke in September 2015, consumers would naturally associate German-made cars from BMW, Mercedes-Benz and Smart with those made by the VW Group, which includes Audi and Porsche, in addition to VW. Twitter mentions of the other German automakers became decidedly less positive in the two weeks following the scandal.

"We find that the VW scandal reduced the sales of the other German automakers and that the decline was principally driven by a country-specific spillover effect," said Gabriel Ehrlich, director of the Research Seminar in Quantitative Economics at the University of Michigan. "The drop was reinforced as consumers avoided diesel vehicles."

Ehrlich and co-authors Ying Fan, associate professor of economics at U-M, Ruediger Bachmann of the University of Notre Dame and Dimitrije Ruzic of INSEAD also found direct evidence on internet search behavior and consumer sentiment displayed on social media to support their findings of a reputational spillover.

The scandal erupted after the U.S. Environmental Protection Agency alleged that 500,000 VW and Audi diesel engines sold in the years 2009 to 2015 contained a device that allowed them to appear to comply with emissions regulations when tested, while having higher on-road emissions.

And consumers in the U.S. had no reason to believe that other German automakers like BMW or Mercedes-Benz were in any way involved in

the scandal.

Behind the overall effect was a larger country-specific spillover effect, which decreased the non-VW German automakers' 2016 sales by 472,084 vehicles worth \$26.5 billion. This decline was partially offset by rising sales from consumers avoiding VW and was reinforced by a substitution away from diesel vehicles, the researchers found.

"Companies have economically important collective reputations in the context of a key industry featuring national powerhouse companies," Ehrlich said. "We show that these collective reputations can give rise to reputation spillovers with large economic consequences to even other group members not implicated in the wrongdoing."

More information: Firms and Collective Reputation: A Study of the Volkswagen Emissions Scandal, DOI: 10.3386/w26117 , www.nber.org/papers/w26117.pdf

Provided by University of Michigan

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