Volkswagen's Vast Jobs Factory Is Under Threat Like Never Before

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By

Stephen Wilmot[1]
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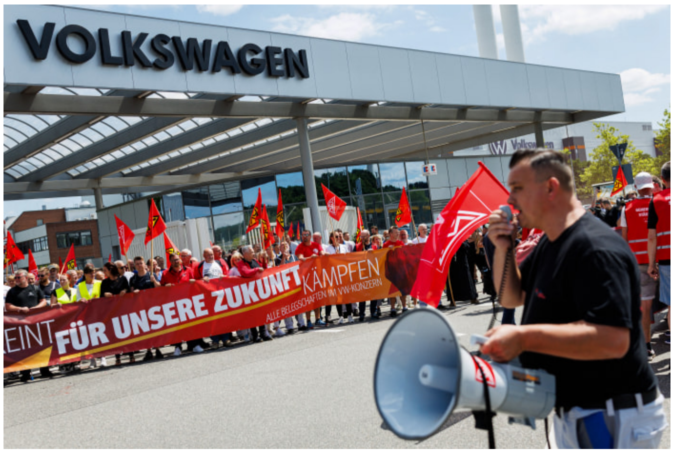

Workers protest against Volkswagen's restructuring plans at a plant in Zwickau, Germany, on Thursday. Jens Schlüter/AFP/Getty Images

- Volkswagen plans to cut its car lineup by up to half and reduce production capacity in its second major overhaul in under two years.
- The German automaker faces intense pressure from Chinese electric vehicles, high domestic labor costs, and billions of dollars in U.S. tariff costs.
- The company's planned restructuring implies factory closures and job losses, which must be negotiated with its powerful labor representatives.

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- Volkswagen plans to cut its car lineup by up to half and reduce production capacity in its second major overhaul in under two years.View more

For decades, Volkswagen's VOW3 -0.76%decrease; down pointing triangle prowess in selling German-engineered cars around the world helped support a growing army of some of the auto industry's best-paid workers back home.

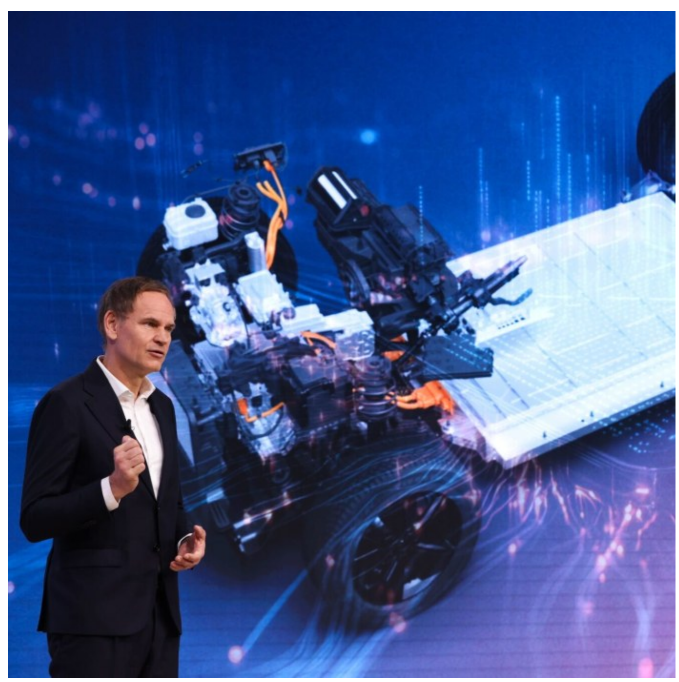
Now, that once-unshakeable business model—and the vast workforce it sustained—is under threat like never before.

The world's second-largest automaker on Thursday said it would cut its lineup of cars by as much as a half and further reduce its production capacity as part of its second major overhaul in under two years.

"The cost reductions planned to date under the agreed programs are not sufficient in the current economic and geopolitical environment," said Chief Financial Officer Arno Antlitz.

Volkswagen is facing challenges on multiple fronts. Chinese electric vehicles have eroded its business in China, which for years subsidized operations back home. Chinese brands are now making inroads into Volkswagen's European heartlands, and President Trump's tariffs have added billions of dollars in costs to its import-reliant U.S. business.

Last year the company's operating margin fell to 2.8%, its worst performance since the 2015 diesel scandal. Chief Executive Oliver Blume has nonetheless outlined an ambition to achieve a margin of between 8% and 10% by 2030—a level Volkswagen hasn't achieved in at least two decades.



Volkswagen CEO Oliver Blume. Krisztian Bocsi/Bloomberg News

While the company's plan implies factory closures and job losses that could run into the tens of thousands, management avoided detailing the potential impact on its workforce, which it will have to hash out with labor representatives.

Labor is unusually powerful at Volkswagen[3]. Union representatives sit on the supervisory board and typically enjoy the backing of officials representing a 20% stake held by the state of Lower Saxony. A special "VW law" hands the politicians a veto in major decisions.

State officials have already said they would oppose factory closures, following press reports about potential cuts. The union organized protests outside Volkswagen's German plants on Thursday in a show of muscle.

Restructuring is particularly tough for a company where maximizing German employment has long appeared to be as high a priority as the traditional corporate goal of maximizing profit.

In the half-decade before its 2015 diesel scandal, when the Chinese economy was booming, the company added more than 200,000 jobs globally in a historic hiring and acquisition spree. Employment peaked in 2023 at 684,000, when pandemic-era checks and parts shortages inflated profits across the auto industry.

Volkswagen has tried to slim down as profits have dwindled, and struck a deal with unions in late 2024 to shed 35,000 jobs by 2030[4] at the company's core operations in Germany[5]. Negotiations at Audi, Porsche and other German subsidiaries brought the total to roughly 50,000.

The two sides also agreed to cut production capacity at German plants but stopped short of factory closures.

But progress in reducing the workforce has been slow, with the company relying on early retirement programs and voluntary layoffs to keep peace with the union. At the end of last year, Volkswagen still employed about 660,000 workers, roughly one for every 14 cars it sold.

Toyota, the only company similar in scale, employed roughly 410,000 to sell 11.3 million vehicles—about 28 vehicles per employee. The Detroit Three have sales-to-staff ratios in the mid-20s.

Volkswagen's operational skew toward its home territory is also a challenge. Roughly 43% of the company's staff were in Germany at the end of 2025, compared with around 17% of Toyota's in Japan.

Germany is an expensive country in which to produce cars, costing more per worker than anywhere else, according to the VDA, the local trade body. Even within Europe, automotive labor costs in countries such as Portugal, Romania and Hungary are less than a third of German levels, according to VDA calculations.

Energy is also more expensive in Germany than in many European nations, with the country no longer benefiting from cheap Russian gas in the wake of the war in Ukraine. Power costs are far lower in Spain and Portugal, where Volkswagen has some of its most competitive plants.

Volkswagen's byzantine corporate structure, with 1,500 entities and 12 core brands, adds another layer of cost and complexity.

After decades of acquisitions under empire-building bosses who touted the benefits of scale, Volkswagen is both a carmaker itself and a holding entity for other brands—a much more knotty setup than at its global peers.

The company has never integrated the brands it bought. Even Audi, controlled by Volkswagen since 1965 and wholly owned since 2020, maintains its own management board, 20-person supervisory board and all the trappings of an independent company.

Bosses try to limit duplication through projects to share technologies and components. But many efforts have added costs and triggered internal battles rather than boosting profits.

Notoriously, a multibillion-dollar plan to create a group software business, Cariad, delayed the launch of key vehicles, including a new all-electric Porsche Macan. The model eventually reached dealerships in 2024, when enthusiasm for electric vehicles was already waning. Porsche wrote down billions of dollars' worth of EV investments last year.

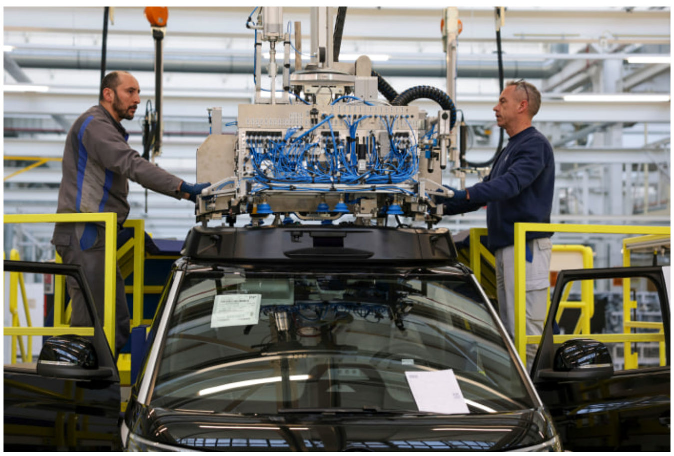
Volkswagen has now shrunk Cariad and transferred its critical functions to a new joint venture with American EV maker Rivian. Yet the unit still employs around 4,300 staff in Germany.

The move to give Rivian effective responsibility for a key technology marked a gear shift for Volkswagen. The company has historically done more in-house than its peers.

The company still makes more components than its competitors, which is one reason why it has more employees for each car it sells. While most carmakers long ago gave up producing car seats, for example, the German giant continues to make its own through a joint venture.

In Volkswagen's hometown of Wolfsburg, the company's taste for self-sufficiency extends to making its own sausages for the staff canteen and owning the local soccer club. In a humbling parallel, the team was recently relegated from Germany's top soccer league.

Volkswagen's decision to build its own EV battery business appears to be rooted in local politics as much as economics. Most carmakers buy cells or have joint ventures with battery specialists.



A sensor unit is fixed on top of a VW ID. Buzz AD at a Volkswagen factory in Hanover, Germany. Christopher Neundorf/EPA/Shutterstock

A new battery plant in Salzgitter, a half-hour's drive from Wolfsburg, is located next to an engine plant in a deliberate experiment in shifting the company's industrial footprint from an old technology to a new one. A presentation describing the transition cited employment as one of the challenges: The battery plant was expected to employ 2,500 staff, only a third of the engine plant's workforce in 2023.

Volkswagen has taken some steps to invest more overseas, sometimes at the expense of Germany. Product-development jobs have moved from Wolfsburg to China in a bid to rejuvenating its business[6] there. The company is also investing billions of dollars in the U.S. to revive the All-American SUV brand Scout Motors[7].

Efforts are also under way to tidy up its sprawling portfolio. Volkswagen agreed to sell a 51% stake in its marine-engine business, Everllence, last month for proceeds of about $8.4 billion. In a sign of the union's power, the deal ruled out compulsory redundancies and site closures in Germany at least until the end of 2030.

On Thursday, the company implied there were more deals to come as it sharpens its focus on the core automotive business.

"Every business model at some point runs its course," said Philippe Houchois, an analyst at Jefferies. "The idea that size alone gives you scale is so 20th century."

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Stephen joined the Journal in 2016 from British investment magazine Investors Chronicle, where he oversaw the companies coverage and wrote a column. He also worked for two years as a strategy consultant. He studied German and French at Oxford University and economics at Birkbeck, University of London.

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