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CASE 21
Porsche

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I couldn't find the sports car of my dreams, so I built it myself.

FERDINAND PORSCHE

Introduction

After over 100 years as an independent and highly successful car maker, in 2008, Porsche fell victim to the financial crisis when it failed to secure the capital needed to acquire a controlling stake in VW Auto Group (VW). During a reverse takeover in 2010, Porsche was forced to hand over its keys to VW. Subsequently, VW management, eager to use Porsche's expertise to assist other brands under the VW umbrella, began moving Porsche executives into key roles with other automotive brands.

As part of the Porsche corporate restructuring initiative, VW appointed former Audi executive Matthias Mueller as Porsche's new CEO. Mueller had considerable experience with VW—the world's third largest automobile manufacturer controlling the Audi, Bentley, Bugatti, Lamborghini, Scania, Seat, Skoda, VW, and now Porsche brands. Mueller's mission was straightforward: integrate Porsche into the VW family, extend the Porsche product line, and increase production.

However, because of Porsche's successful track record, there were many things to consider in the transition of Porsche. Should Porsche diversify and extend its product line while expanding production? How could Porsche effectively combat possible brand dilution? Should Porsche acknowledge the trade-offs and focus on its pure play products—sports cars? How would the market react to multiple sports cars offerings from Audi, Lamborghini, and Porsche?

History

Ferdinand Porsche, the engineering genius and founder of Porsche, began carving his name in car history early on. In 1900, at the age of 25, Ferdinand introduced the world to not only the first hybrid (petrol/electric) vehicle but an all-wheel-drive racecar as well. This splashy introduction was merely the beginning of Porsche's unprecedented success.[1]

Ferdinand had what seemed to be the perfect ratio of brains to passion when it came to designing sports cars. The German citizen, born and educated in the Czech town of Liberec, not only engineered but also raced his own models. In 1910, an Austro-Daimler sports car of his design won the prestigious Prince Henry Trials—with Ferdinand behind the wheel.

On April 25, 1931, Ferdinand Porsche opened an office for "engineering and consultation on engine and vehicle design" in Stuttgart, Germany. The company, Dr. Ing. h.c. F. Porsche KG, did not have to wait long for contracts to build vehicles for German manufacturers such as Auto Union, Zündapp, NSU, and Wanderer. In perhaps a bit of irony, Ferdinand's company designed and sent into mass production the "Ur Beetle"—the first VW "Bug" and the basis for a design that has not lost its appeal some 75 years later. Ferdinand clearly possessed the ability to anticipate and envision the future, maintain organizational flexibility, and empower others to create one of the world's most valuable car brands. He was a racecar driver at heart, an engineer by trade, and employed his entrepreneurial spirit on a daily basis in a growing company that proudly carried his name. Ferdinand's son, known by all as Ferry, began running the company in 1946 and, upon his father's death in 1951 and with his own son at his side, officially took the wheel.

Without question, Porsche was a powerhouse in racing, collecting victories in virtually all major racing events throughout the world including the Can-Am racing series, Paris-Dakar Rally, Pharaoh's Rally, Rally Monte Carlo, 24 Hours of Le Mans, and the World Championship of Makes. On the consumer side, in 1964, Porsche began producing what would become its most famous sports car—the 911. Throughout the 70s and 80s, the 911 (and variations of) kept Porsche in the black.

In its efforts to provide variety in both design and price, in 1996, Porsche introduced the Boxster. The Boxster was the first mid-engine production sports car Porsche had ever manufactured and a big hit—selling as many in its first year as the entire 911 line-up combined. In 2002, Porsche surprised many purists by presenting a sports-utility vehicle—the Cayenne. Once again, Porsche's newest offering outsold all other models in its first two years. In 2005, the Cayman was launched as a hard-top version of the successful Boxster and Porsche once again surprised the automotive world in 2010 by introducing the first four-door Porsche sedan ever—the Panamera.

By 2011, the company produced five models with a combined total of 40 different trim levels. This increased diversification brought higher shareholder returns—one of Porsche's main objectives.

Economic and Political Challenges

As it was for most automakers, the economic climate beginning in 2007 was challenging for Porsche. Oil prices were at record highs, topping $100 a barrel. For every ten cents that gasoline prices rose, approximately 1,000 trucking companies went bankrupt.[2] The global economy struggled to step out of the deepest recession the US and Europe had experienced in decades. Consumers were extremely price sensitive and unemployment in the US hovered around 10 percent. Of particular concern to Porsche were gasoline prices: as a sports car manufacturer, it was fighting the stereotype of a gas-guzzling automobile segment.

Consequently, Porsche re-engineered many of its offerings to provide (relatively) higher gasoline efficiency. For example, the 911 Turbo had an EPA estimate of 18 miles per gallon (mpg) throughout most of the 90s; however, the 2010 estimate was 24 to 25 mpg (depending on cylinders and auto/manual) and, as a bonus, came with roughly 75 percent more horsepower. In addition, the highly sought after Carrera (a 911 variation) offered 24 to 27 mpg, the Boxster 26 to 29 mpg, and even the four-wheel drive SUV Cayenne boasted 22 to 23 mpg.[3] Unaccustomed to trailing the pack, Porsche rekindled its hybrid roots by engineering a hybrid Cayenne and Panamera S with mpg ratings of 25 and 35, respectively.[4]

And yet, even with Porsche's efforts toward fuel efficiency, US government actions have put even more pressure on the Bavarian carmaker. Under the direction of President Obama, the National Highway Traffic Safety Administration and the EPA increased the mpg requirements for all cars in the US through an old emissions policy known as Corporate Average Fuel Economy (CAFE). In the past, CAFE had levied small fines on carmakers with mpg ratings that didn't meet specified regulations and Porsche and other high-performance car makers simply absorbed the relatively minor fee. However, the 2009 legislation imposes not only a significantly higher mpg requirement, but a significantly higher penalty as well: CAFE mandates that, by 2020, automobile manufacturers and importers must have an average mpg rating of 39 for cars and 30 for trucks or pay $35,700 for each individual car in violation.[5] Upon passage, Porsche commented that if the 2020 CAFE policies are enforced, it simply won't be able to sell cars in the US.[6]

On a more positive note, economic support for Porsche is strong in its German homeland. Germany is the third largest exporter in the world.[7] Union workers are protected by strong labor laws and wide support, and approximately 93 percent of the German workforce is unionized.[8] Manufacturing employees constitute approximately 30 percent of the nation's workforce.[9] Though Germany has not been immune to the global recession, Porsche has continued to enjoy a supportive manufacturing infrastructure.

Industry Characteristics

The sports car industry faced its share of economic woes throughout the latter half of the 20th century with many sports car makers experiencing fatal cash flows. Lamborghini declared bankruptcy in 1978. It was later revived and sold to Chrysler only to then be sold to the Suharto family in 1994 and sold again to Audi in 1998.[10] In that same year Bentley, Bugatti, and Audi (and thus Lamborghini) were acquired by VW. Aston Martin, which had sold a controlling share to Ford in 1987, was bought outright by Ford in 1994 and then sold again in 2007.[11] Jaguar was also bought and sold by Ford in 1990 and 2007, respectively. Getting out of the gate even earlier, Fiat acquired Ferrari in 1969, Alfa Romeo in 1986, and Maserati in 1993.[12] Even so, through it all, Porsche managed to not only stay independent but, more importantly, financially buoyant.

Porsche competes in a market segment where relatively few can compete. Manufacturing a car of any caliber—no less the caliber of Porsche—requires sizeable capital investments. Additionally, the engineering expertise required to design a car capable of competing with Lamborghini, Ferrari, Aston Martin, Porsche, and others keeps all but the truly intent from entering the field.

Though there seem to be several *supercar*[i] options like the McLaren MP4, Ferrari FXX, and Ferrari Enzo that cost more than $500,000, consumers have few

[i]A *supercar* is typically an exotic or rare sports care whose performance is highly superlative to contemporary sports cars (Supercars/Exotic Cars. *TopSpeed.com*. http://www.topspeed.com/cars/supercars-exotic-cars/ke177.html).

alternatives—if any—for a mid to low $100,000 car like the Porsche 911 Turbo—particularly one that boasts near supercar performance. Companies including BMW, Nissan, and GM have each produced one or two cars comparable in price and performance to the Porsche line, but their offerings do not present the prestige or variety of Porsche's emblem or full lineup.[13]

Sports car enthusiasts are few and fickle; trend conscious buyers are inherent to luxury and high-end markets. That means Porsche must constantly innovate to keep up with trends. As evidenced by the short lifetimes of independent sports car manufacturers over the last 30 years, surviving in this type of a market is extremely challenging. Despite this, Porsche's greatest challenge would appear to lie in the impending CAFE regulations—regulations that could spell an end to Porsche sales in its number one market, the US.[14]

Global Trend Toward Emerging Economies

Many automotive firms have sought international exposure to increase their market share. In 2010, Porsche sold 14 percent of its volume in Germany and over 26 percent of its volume in the US. Given the possibility of CAFE regulation enforcement, Porsche has been diversifying its international scope. China, for example, has become an area of extraordinary expansion for Porsche, accounting for approximately 15.6 percent of overall sales (see Exhibits 1A and 1B). Current management believes China will be the largest consumer segment for Porsche within two or three years.[15] To encourage this new market, Porsche has even begun building race tracks for Porsche drivers on the mainland of China. Depending on this level and pace of expansion in China is not without risk, however. The Chinese government has increased scrutiny of foreign operations within its borders and firms investing in China face uncertainty when dealing with the undervalued yuan.[16] Yet, with plans to allow a gradual increase in value of local currency and boasting the most rapid economic growth of any country at the time, China has too much potential as an export market to ignore.

Typically, in a capital-intensive industry, efficient international expansion of production yields greater economies of scale and increases market penetration. Other automakers, such as VW and GM, employ a transnational strategy by modifying current models according to the demands in international regions. Porsche, however, employs a global strategy whereby it offers the same models for the whole world. This lower risk trade-off helps protect the Porsche brand from international dilution and enables Porsche to remain consistent with regard to costs in its strategy forged in Germany.

Porsche has always expanded to international markets exclusively through exportation—a less expensive option as compared to greenfield ventures or establishing new bases of operation. Inherent to multinational expansion are increasingly complex economic and political risks. Porsche's strategy hedges against such

Exhibit 1A Units Sold per Multi-Geographic Market: 2009 to 2010

Multi-Geographic Markets	FY 2009	FY 2010	Change 2009 to 2010
United States	18,958	22,181	17.0%
China	7,708	13,254	72.0%
Germany	12,506	11,911	−4.8%
Other European Countries	6,749	8,407	24.6%
Middle East/Africa	5,941	6,275	5.6%
United Kingdom	4,926	6,157	25.0%
Italy	3,930	3,655	−7.0%
Japan	2,915	2,775	−4.8%
France	2,010	2,432	21.0%
Canada	1,622	1,823	12.4%
Asia Pacific	1,116	1,660	48.7%
Latin America (excluding Brazil)	2,123	1,441	−32.1%
Russia	1,278	1,302	1.9%
Australia/New Zealand	1,076	1,148	6.7%
Brazil	n/a	781	n/a
Total	72,858	85,202	16.9%

Source: Data adapted from http://quote.morningstar.com

Exhibit 1B Percentage of Sales per Multi-Geographic Market: 2009 to 2010

Multi-Geographic Markets	% of Sales 2009	% of Sales 2010
United States	26.0%	26.0%
China	10.6%	15.6%
Germany	17.2%	14.0%
Other European Countries	9.3%	9.9%
Middle East/Africa	8.2%	7.4%
United Kingdom	6.8%	7.2%
Italy	5.4%	4.3%
Japan	4.0%	3.3%
France	2.8%	2.9%
Canada	2.2%	2.1%
Asia Pacific	1.5%	1.9%
Latin America (excluding Brazil)	2.9%	1.7%
Russia	1.8%	1.5%
Australia/New Zealand	1.5%	1.3%
Brazil	n/a	0.9%

Source: Data adapted from http://quote.morningstar.com

complexity by focusing solely on exportation rather than manufacturing expansion, acquisition, and licensing. With the exception of its contract with Valmet in Austria for the Boxster/Cayman, Porsche produces all of its cars within its labor union dominated, Bavarian borders.

Product Quality

Porsche. There is no substitute.

> ***Tom Cruise***
> ***Risky Business, 1983***

High-performance sports cars are generally high-maintenance, low-reliability vehicles. To consistently perform as intended, most sports cars need frequent and expensive attention and maintenance. In March 2010, J. D. Power and Associates ranked Porsche as providing the best long-term reliability of any brand in the US.[17] What makes this designation truly exceptional is that the comparison was not made solely within the high-performance sports car segment, but was extended to all automobile lines including sedans, SUVs, trucks, etc., offered by such reputable brands as Toyota, Ford, BMW, and Honda: truly an extraordinary accomplishment for any vehicle within any segment, but even more so for one within the notoriously temperamental high-performance sports car segment. Additionally, J. D. Power and Associates market researchers hailed the Porsche production plant in Stuttgart as "the best car factory in the world."[18]

Innovation

Porsche largely generates innovative technologies through its racing programs. According to Porsche Motorsports, Porsche "is the most successful manufacturer by far in the history of international sports car racing."[19] With over 50 years of racing experience, Porsche has accumulated a wealth of technological expertise and employs some of the brightest engineering minds in the world. Porsche has consistently developed class-leading technologies that competitors find difficult to imitate. For example, the seven-gear Porsche Doppelkupplung (PDK) system allows drivers to shift between gears without interrupting the flow of power. The Porsche Torque Vectoring (PTV) system can sense the vehicle steering angle and speed, accelerator pedal position, yaw rate, and vehicle speed to vary the torque distribution to rear wheels to ensure more predictable and stable vehicle maneuvers at all speeds. Ceramic composites are utilized in various vehicle components, such as brakes and clutch plates, to provide lightweight, durable performance.[20] The technology Porsche has developed—and continues to develop—produces exceptionally reliable performance at comparatively low prices.

Porsche Strategic Partners

Clearly, depending on racecar technology for the lion's share of innovation can serve a car maker well in many ways. Nevertheless, Porsche is neither above nor hesitant to develop strategic alliances as needed when particular technologies are not within its immediate grasp. Whether through its highly selective paid internship program[21] or alliances formed with other automakers to receive a crash course in hybrid technology,[22] Porsche has forged partnerships to keep its business on the cutting edge.

In one of its more forward-thinking moves, in 1999, Porsche bought a 49 percent interest in Miseschke Hofmann und Partner (MHP), a specialty IT technology and process improvement group and SAP (Systems, Applications, and Products in Data Processing) Implementation and Service Partner. Initially, the venture was an equity strategic alliance in which MHP subcontracted to consult and improve Porsche processes. This vertical complementary alliance helped Porsche learn new business techniques and technologies. Subsequently, Porsche bought a controlling interest of MHP (74.8 percent) and MHP served as the exclusive provider of IT improvements and process engineering for Porsche[23] while continuing to serve outside clients—mostly in the automotive industry. In 2001, SAP AG named MHP as the first Special Expertise Partner SAP for the automotive category. MHP was also rated SAP Silver Partner Service and SAP Channel Partner Gold. MHP's contributions to the Porsche manufacturing process allow several manufacturing advantages, including the ability to produce the Cayenne, Carrera GT, and Panamera at the same plant and on the same line in Leipzig, Germany. [24]

Porsche also engages in alliances not requiring equity ownership. Concurrent with its launch of the Boxster in 1996, Porsche announced it would sub-contract production to a non-German manufacturer for the first time. With Porsche building the engines and various other components in its main factory in Zuffenhausen, the state-owned Finnish manufacturer—Valmet—produced the majority of the Boxster line, adding production of the Cayman in 2005. In 2008, and with the Cayman/Boxster production contract set to expire in 2012, Valmet announced it would begin production on the Fisker Karma plug-in hybrid sports car beginning in 2012.[25] Porsche's Deputy Chairman, Holger P. Haerter, confirmed the Valmet contract would end in 2012, and announced that Magna Steyr Fahrzeugtechnik (MSF) of Graz, Austria would take over production of the Boxster and Cayman.[26] A year later, Porsche paid MSF an undisclosed sum to cancel the contract and it is now expected that production will move to the factories of bankrupt Karmann Ghia—now the property of VW.[27]

Diversification: SUVs and Sedans

While the Porsche brand name and product quality never wavered, in the mid to late 90s it became clear that customer preferences were changing. Particularly in the US—Porsche's biggest export market—the SUV began to dominate the road. Porsche had to decide if it would continue focusing on its traditional two-door sports car models or further diversify its product line by offering new models that departed from the historic Porsche image. Purists argued that extending the product line would dilute the Porsche brand name and ultimately destroy the distinct Porsche image. Others argued that economic growth made it worth the risk, as existing product sales were flat. In the end, Porsche decided to extend its product line to include a SUV—the Cayenne. Despite the radical departure from its niche, the 2002 introduction of the Cayenne was extremely profitable and helped fuel Porsche's growth for several years. As for its reception in the auto world,

On one level it is the world's best 4x4, on another it is the cynical exploitation of a glorious brand that risks long-term damage to that brand's very identity in the pursuit of easy money... So I applaud the extraordinary Cayenne and wish it every success while at the same time still wishing, in part at least, that it had never been built.[28]

Having weathered the stigma of introducing a SUV, in 2009, Porsche offered another first: the four-door Panamera sedan. With global economic tensions increasing in 2008 and 2009, consumer tastes for Porsche's traditional high-performance two-door models flattened. Nevertheless, sales of the Panamera and Cayenne models grew significantly.

Loyalty

When Porsche decided to enter the SUV market with its luxury Cayenne model, it surprised the auto industry by locating its new assembly plant in Leipzig, Germany. Many observers believed Porsche should locate the plant in either central or eastern Europe where labor costs were very low, or even perhaps in the US (as had Mercedes and BMW) where it could be close to its major market. The critical issue driving Porsche's Leipzig plant decision appeared to be the primacy of Porsche's strategy of quality, craftsmanship, and engineering excellence. Ultimately, maintaining brand image (while, paradoxically, simultaneously upsetting that brand image) was much more important to Porsche than saving on labor costs—especially when assembly costs comprise only a small portion of overall vehicle cost.[29] In the end, Porsche emphasized design, research and technology development, and marketing to maintain its reputation for a commitment to excellence.[30]

In North America, Porsche aficionados tend to be college-educated men between 36 to 55 years of age with an annual gross income in excess of $380,000 per year. They value innovation and independence and are often senior executives, medical professionals, and entrepreneurs.[31] This customer segment buys Porsche because of its innovative features, exceptional styling, and European origin.

Introduction of new features and innovative technology by BMW, Mercedes, and Lexus prompted Porsche to implement lean production practices. However, because Porsche produces a limited number of models, its switch to lean production practices was somewhat easier than that of its competitors. In addition, Porsche engineers have been able to keep vehicle performance and handling of their vehicles at the forefront of the sports car segment. As a result, Porsche has enjoyed record sales and profit (see Exhibits 2A and 2B). In early 2010, with only a handful of focused car-making companies remaining, Porsche led the pack.

The Prestigious Competition

The sports car manufacturing segment faces a complicated, competitive environment. Changing industry dynamics frequently present Porsche's management team with rigorous obstacles to overcome. Porsche offers several product lines of sports cars available in many geographic markets. Porsche focuses on quality and not quantity and as a result and fully 80 years after its founding, Porsche only offers five different car models: the Boxster, the Cayman, the 911, the Panamera, and the Cayenne.

Exhibit 2A Income Statement of Porsche Automobil Holding SE

€ Million	**2009/10**	**2008/09**
Revenue	0	5
Other operating income	641	52,790
Personnel expenses	–18	–77
Other operating expenses	–631	–55,407
Income from investments	9,850	2,992
Interest result	–851	–746
Income from ordinary activities	**8,991**	**–443**
Taxes	0	–553
Profit/loss after tax	**8,991**	**–996**
Withdrawals from retained earnings	0	1,004
Transfer to retained earnings	–4,495	0
Net profit available for distribution	**4,496**	**8**

Source: Data adapted from http://quote.morningstar.com

Exhibit 2B Balance Sheet of Porsche Automobil Holding SE

€ Million	**July 31, 2010**	**July 31, 2009**
Assets		
Financial assets	24,771	24,838
Receivables	4,348	2,703
Other receivables and assets	230	1,202
Cash and cash equivalents	887	2,164
Prepaid expenses	53	263
Equity and liabilities	**30,289**	**31,170**
Equity	16,977	7,993
Provisions	1,572	3,371
Liabilities to banks	7,000	10,561
Other liabilities	4,740	9,245
	30,289	**31,170**

Source: Data adapted from http://quote.morningstar.com

Two of Porsche's three most recent additions, the Cayenne and Panamera models introduced in 2002 and 2009 respectively, compete mainly with other *prestige brands*.[ii] The Cayenne is offered in four different models ranging from the stock Cayenne to the Cayenne Turbo S. Its main competitors are the BMW X6 M, Mercedes-Benz ML63 AMG, and Audi Q7, among others.[32] The BMW X6 M is slightly faster than the Cayenne Turbo S with a 0–60 of 4.0 compared to 4.1 for the Porsche.[33] The Mercedes-Benz ML63 AMG is less expensive than the Cayenne but slower with a 0–60 of 4.6 seconds. The Audi Q7 is the slowest of the pack but has more interior space and torque than the Mercedes.[34] Each model has distinct advantages and disadvantages when compared to the Cayenne, making it a very competitive arena.

The Panamera is offered in seven different models ranging from stock to the Turbo S. The Panamera was introduced in 2009 to compete against the BMW M5, Mercedes-Benz S65 AMG, and Audi S8, among others.[35] The BMW M5 is a sporty luxury sedan but significantly slower than the Panamera Turbo S with a 0–60 of 4.4 compared to 4.0 for the Porsche. However, only the M5 offers a standard gear box. The Mercedes S65 AMG offers the smoothest ride of the four and garners higher rankings on spaciousness and comfort. The Audi S8 is again the slowest of the group but offers exceptional interior quality. The Panamera competes directly against these models and has been touted to be the fastest luxury sedan in the world.[36]

The Boxster and Cayman are also relatively recent additions to the company's offerings. The Boxster was first introduced as a roadster in 1996, the same year BMW launched James Bond's Z3. The Cayman was launched ten years later, in 2006, as a coupé derived from Porsche's second-generation Boxster convertible. Today, the Boxster is offered in four different models: Boxster, Boxster S, Boxster Black Edition, and Boxster Spyder. The Cayman is only offered in three different models: Cayman, Cayman S, and Cayman R. These Boxster and Cayman models compete against the BMW Z4, Mercedes-Benz SLK models, and Audi TT, among others.[37] The Z4 is considered to have a more luxurious angle when compared to the Boxster or Cayman. The Mercedes offering in this roadster class has significantly less horsepower and fewer sport options. Overall, the Boxster and Cayman models compete well against their competitors, most notably in reliability as, in 2010, the Boxster was rated the most reliable car, regardless of model, in the world[38] (see Exhibit 3).

[ii]*Prestige brands* are well established as status symbols, represent the highest form of craftsmanship, and command a loyal consumer following that is not affected by trends (*Roumeliotis, J.D. (2011, February 10). Defining luxury brands: Business. WCW Insight.* http://www.whitefieldconsulting.com/wordpress/?p=7350).

Porsche's fifth and most recognized offering is the iconic Porsche 911. The 911 was introduced in 1963 and boasted an air-cooled rear-engine design, independent rear suspension, and a swing axle pioneered by Porsche. Over its almost 50-year lifetime, the 911 had undergone continuous development, though the basic concept had remained mostly unchanged. Among its many awards, the 911 ranked fifth in the 1999 international poll for the Car of the Century award. Today, the 911 is offered in over 20 stock models. Most models are variations of the Carrera, Targa, Turbo, Black Edition, or GT. The Porsche 911 competes with the Ferrari Enzo, Aston Martin V12 Vanquish, Lamborghini Murcielago, and Bentley Continental GT, among others.[39] These supercars offer outstanding performance but are extremely expensive with price tags in the range of $250,000 to $400,000. Porsche on the other hand has been able to produce equal performance and prestige, yet at more affordable prices ranging from $130,000 to $145,000 for the Turbo trims and up to $245,000 for the GT2 RS. In addition to the supercars, the 911 competes against the BMW M6, Mercedes-Benz SL-Class, and Audi R8, among others. These competitors have similar brand prestige as Porsche but lack in some aspects of sport performance. Furthermore, the 911 faces competition from less prestigious brands that deliver comparable performance. The Nissan GT-R and Dodge Viper, for example, both boast excellent performance figures and lower price tags than the 911 but lack the pedigree of the Porsche line.[40]

The price range and performance varies greatly among the five model lines and their respective trim levels. Boxster, Cayman, and 911 models target sports car enthusiasts, whereas Panamera and Cayenne target luxury vehicle and SUV market segments, respectively. Each model not only meets but with additional sports performance, exceeds the standards of their respective automobile class. In addition to the five production models, Porsche also manufactures track-ready racecars. Taken together, Porsche's model offerings provide a wide selection for many needs and different stages of life.

Influence of the Volkswagen Group

In 2010, VW employed about 400,000 employees, operated 62 production facilities worldwide, produced 200 different vehicle models at a rate of 30,000 vehicles per day, and was active in more than 150 countries. VW consists of two main divisions: the automotive division (VW Group) and the financial services division. The automotive division is comprised of 10 different automotive brands: VW passenger cars, Audi, Skoda, SEAT,

Exhibit 3 Porsche Awards and Accolades

Year	Car Type	Awards
2011	911	*AutoPacific* Best Sportscar—Vehicle Satisfaction Awards (VSA)
2011	911	*Car and Driver* Editor's Choice
2010	Boxster	*Car and Driver* Best Handling Car in America
2010	Boxster/Cayman	*Car and Driver* Editor's Choice
2010	918 Spyder	*Edmunds.com* Insideline Most Wanted
2010	Cayenne	*Motor Trend* SUV of the Year
2010	Panamera	*About.com Cars*—Best New Cars of 2010
2010	Panamera	*Car and Driver* Editor's Choice
2010	Porsche Brand	*Kelly Blue Book* Brand Image Awards—Coolest Brand
2010	Porsche Brand	*J.D. Power and Associates* #1: Initial Quality Survey
2010	Porsche Brand	*Auto Pacific* Ideal Vehicle Awards (IVA) #1
2010	Porsche Brand	*J.D. Power and Associates* APEAL Study—#1
2009	Panamera	*Bloomberg* Car of the Year
2009	Cayman	*Motor Trend* Best Drivers Car
2009	911	*Automobile Magazine's* All-Stars Award
2009	911	*Robb Report* Best of the Best
2008	Boxster/Cayman	*Car and Driver Magazine's* 10 Best Cars Sold in America
2008	911	*Edmunds* Editors' Most Wanted Award
2008	Porsche Brand	*Luxury Institute's* Top Luxury Automotive *Brand*
2008	Porsche Brand	*J.D. Power* 1st in Initial Quality Survey
2007	Porsche Brand	*J.D. Power and Associates* APEAL Study—#1
2007	Boxster/Cayman	*J.D. Power and Associates* Best Premium Sports Cars
2007	Boxster/Cayman	*Car and Driver's* "Ten Best"

Source: Data adapted from http://quote.morningstar.com

Bentley, VW commercial vehicles, Scania, Bugatti, Lamborghini, and Porsche. Each brand within the automotive division is led by a brand CEO and Board of Management. The financial services division is the largest automotive financial services provider in Europe and offers dealer and customer financing, leasing, banking activities, insurance activities, and fleet management.

At the corporate level, VW is charged with becoming the "leading automotive group globally." VW's Strategy 2018 sets forth the roadmap to achieve this goal using its unrivaled distribution capabilities, best-in-class manufacturing and technology, and superior quality. Best practices are leveraged across brands, and purchasing, production, and distribution synergies develop as brands work together.

While the VW brands compete in a number of consumer markets and segments, VW's flexible engineering design and architecture processes allow its brands to share compatible components to customize vehicles and meet regional customer preferences. To promote local customization, production facilities are located in various markets including China, Russia, the Slovak Republic, the Ukraine, Kazakhstan, Spain, France, the US, Brazil, and Argentina.

The Porsche brand will play a key role within the VW family in various global markets. VW's executive team plans to fully integrate the Porsche brand into the group by the end of 2011 via a multi-stage transaction. It is expected that Porsche will contribute to the group synergy and help other group brands improve in innovation, manufacturing, and quality by sharing technology, research and development, components, and platforms. Product line extensions are planned to produce new Porsche vehicles that will meet emerging customer demands in various markets. Production goals are aimed at increasing Porsche production from 80,000 units to 150,000 units annually within five years. VW's distribution network will be leveraged to introduce the Porsche brand into new markets.[41]

Overview of Strategic Challenges

VW's Strategy 2018 calls for the company to become "the most successful and fascinating automaker by 2018." Over the past 15 years, VW Group has acquired more than half a dozen brands including Porsche, Lamborghini, and Bentley. Porsche will help VW achieve its goals by sharing its technology with other VW brands, increasing production, and diversifying the Porsche product line. For example, VW has already announced its plans for Porsche to launch the Cajun (pronounced CAY-OON) a smaller, more fuel-efficient version of the Cayenne SUV. Also, rumors have been circulating that an even smaller version of the Boxster will begin production by 2013. VW has seen the success of Porsche's recent diversification and is looking for an even broader offering.

However, Porsche has traditionally been a top-tier sports car company, producing variations of the legendary 911 platform. Its newest product offerings—the Cayenne and Panamera—were the hands-down sportiest options within their respective segments. For example, the Panamera Turbo S was the fastest sedan in the world after less than two years of production. Further extension of the sedan or SUV lines could lead to performance dilution.

By complying with VW's Strategy 2018, the Porsche brand would evolve from a focused approach to a broader brand of car segments. Porsche would no longer solely focus on its traditional target customer but would instead be forced to appeal to multiple consumer segments. As such, Porsche faces the risk of diluting its brand, alienating its customer base, and potentially destroying its competitive advantage.

NOTES

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