

Is Porsche Killing the Golden Goose?

One day a farmer going to the nest of his goose found there an egg all yellow and glittering. He took it and found that the egg was pure gold. The farmer could hardly believe his luck! Every morning the same thing occurred, and the farmer grew richer, day by day. Thinking he could get all the gold at once, he killed the goose. After he opened it, he found nothing.

—Aesop's Fable

WHEN PORSCHE REVEALED its 911 sports car design in 1962,¹ it caused a worldwide sensation. Ever since, Porsche has been one of the world's finest performance car manufacturers. The Porsche 911 is a legendary sports car icon. Although focusing on a niche market with a small output every year, Porsche was extremely profitable. Even today, it still enjoys the largest profit margins among all major auto manufacturers, thanks to the hefty premium it can command for its cars.

Brand Proliferation

More than 50 years after its birth, the 911 remains the heart and soul of Porsche. However, it is no longer the company's best-selling model. The number-one spot has been taken by the Cayenne, a five-seat sports utility vehicle (SUV) launched by Porsche in 2002. Porsche views the Cayenne as a way to reduce the company's dependence on the traditional sports models and to provide for future growth in sales and profits. The Cayenne may be the most successful model launch of Porsche since the 911: Porsche sold the 200,000th Cayenne only six years after its debut at the Paris Motor Show. Global sales for the Cayenne reached a record 84,000 units in 2013, accounting for almost two-thirds of the company's overall sales volume (see Exhibit MC11.1). The popularity of the Cayenne is seen across regions, especially in the

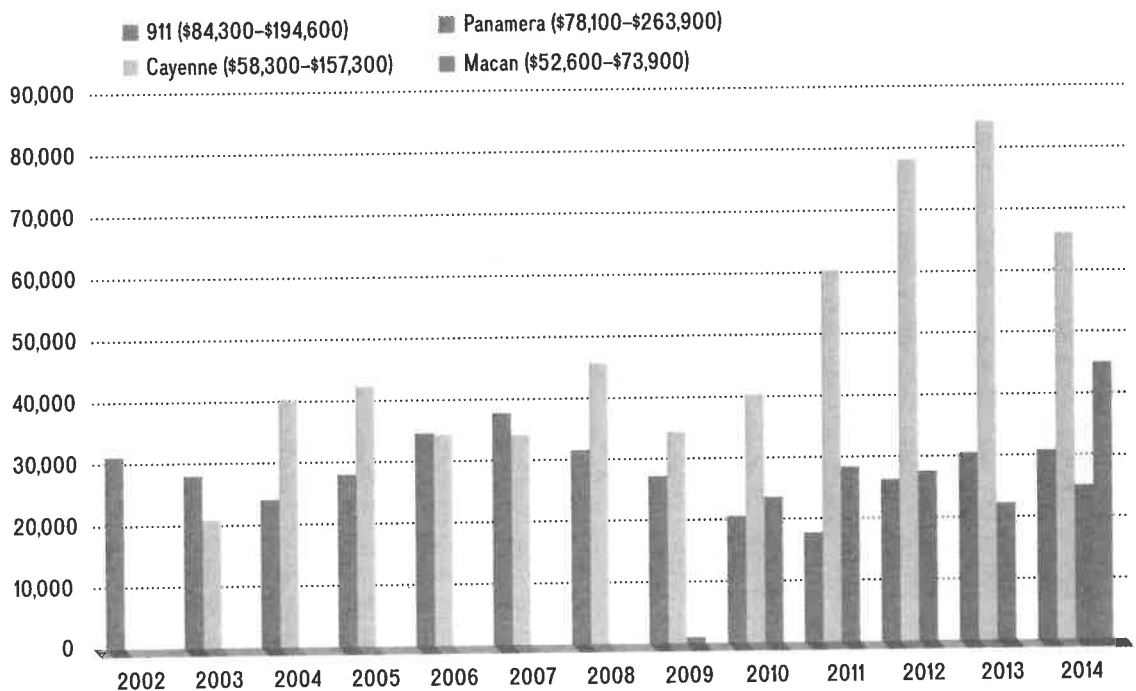
United States and China, the two largest markets of Porsche overall. In fact, China has become the largest market for Cayenne, and the model will continue to be the strategic sales focus of Porsche in that country. Roughly two-thirds of the 40,000 Porsche vehicles sold annually in China are Cayenne models. This is because wealthy Chinese don't drive themselves, but prefer having a chauffeur.

The Cayenne has made Porsche more appealing to people who are not sports car drivers but are happy to own the sportiest SUV on the market. While the model expansion may upset the purists, Porsche did not stop there. In 2005, Porsche announced its plan to build the Panamera, a premium-category four-seat sports sedan, to further extend its customer base. This new line was launched on time in 2009 and like Cayenne, it outsold the 911 for the first few years after its launch. Porsche kept the model proliferation momentum, and in 2012, it revealed the Macan, a compact SUV. It was launched in 2014 and quickly became the second-best-selling Porsche model behind the Cayenne. In the first year, Porsche sold 45,000 Macans. In total, Porsche sold over 110,000 SUVs in 2014 (Cayenne and Macan) while only 30,000 Porsche 911 models. Its SUV sales now make up close to 70 percent of all Porsche sales. Given the huge success of the Macan in its first year, Porsche is forecasting to sell 72,000 Macans in 2015.

The essence of a Porsche—a high-performance sports car—seems now to take a back seat. Although the company has built “experience centers” in China and the United States to cultivate sports car enthusiasts, Porsche sold only some 30,000 units of the 911

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EXHIBIT MC11.1 / Porsche Annual Sales (units, selected models), 2002–2014



Source: Porsche annual reports, 2009–2014; various Porsche press releases; pricing is manufacturer's suggested retail price (MSRP) for U.S. 2015 base models, www.porsche.com.

in 2014, or 18 percent of Porsche's total sales volume. Porsche's expansion success has thus far relied largely on its reputation as an iconic sports car maker. However, many of today's Cayenne buyers, such as soccer parents in the United States or Chinese businesspeople, have no idea about Porsche's true identity as a high-performance sports and race car manufacturer. The same holds true for young urban professionals whether in San Francisco, Stuttgart, or Shanghai—all of who flock to the Macan.

Porsche, now a division of Volkswagen (VW), is clearly gunning for economies of scale as it ramps up unit sales, and VW overall is aiming to be the global leader in sales units. The "new" Porsche developed its own growth blueprint, termed "Strategy 2018," as part of Volkswagen group's grand vision: Porsche plans to increase unit sales to 200,000 per year by 2018, up from 30,000 units in 2002. Given its successful model proliferation, Porsche might achieve this goal early. In 2014, it sold some 166,000 vehicles. Over this time period, it grew by more than 550 percent.

Trouble in the Family

In the years leading up to the global financial crisis in 2008–2009, Porsche was attempting a hostile takeover of the much larger Volkswagen; in terms of market cap, VW (110 billion euro) was more than eight times larger than Porsche (13 billion euro) at that time. Part of the competition was motivated by a bitter family feud resulting from estranged members of the Porsche (and directly related Piëch) families holding leading executive positions in both companies. As the global financial crisis took hold, Porsche collapsed under a heavy debt burden caused by the hostile takeover attempt. VW turned the tables and took over Porsche in 2012.²

VW's corporate strategy is not without its critics. They worry that VW has overextended itself in its quest to be number one in the world. They are very much concerned about brand dilution, in particular at Porsche but also of other VW premium brands, including Audi. While serving as chairman of VW's board

of directors, Ferdinand Piëch, a grandson of Ferdinand Porsche, the founder of the Porsche car company, publicly criticized VW CEO Martin Winterkorn and asked for his resignation. Winterkorn defended his record, explaining that he increased VW's global reach, and with it its revenues and profits. In addition, VW is set to overtake GM and Toyota as the world's largest car manufacturer in units. Critics, however, lament that although VW's total net income may have increased, the group's profit margins are too low, which necessitated implementation of a company-wide cost-cutting program. In addition, Winterkorn's critics also charge that VW's billion-dollar investments in its Chattanooga, Tennessee, plant have yet to pay off.

In fall 2015, Winterkorn was forced to resign as CEO in light of an emissions cheating scandal and was replaced by Matthias Müller. It was revealed that VW had illegally installed diesel emissions cheat software in more than 11 million vehicles worldwide; in reality, VW's diesel engines were emitting up to 40 times the allowed level of pollutants. Not only must VW now face the repercussions of recalling and retrofitting 11 million vehicles—the world's largest vehicular recall—it must also suffer billions of dollars in lawsuits and fines throughout the world, from which it may take years to recover.

DISCUSSION QUESTIONS

Business Strategy

1. The MiniCase began with Aesop's Fable of "The Goose That Laid the Golden Eggs." What is the take-away of this fable? Is Porsche killing its golden goose?
2. For many decades, Porsche pursued a focused differentiation strategy. Using a clear strategic profile as a focused differentiator, Porsche was very successful and very profitable. More recently, the Porsche brand is repositioning itself from focused differentiation to broad differentiation by changing its competitive scope. What are the risks inherent in such strategic positioning? What are the benefits? Do you think Porsche will be successful in carving out a new strategic position as a broad differentiator? Why or why not?
3. Porsche is expanding rapidly through both related and geographic diversification. Do you consider this business strategy to be successful? Why, or

why not? If you consider Porsche's diversification to be successful, what is the source of Porsche's success?

Corporate Strategy

4. Volkswagen ranks with GM and Toyota as one of the top-three carmakers in the world today in terms of sales volume (in units). It uses its Volkswagen brand, as well as its entire portfolio of other brands, including the luxury marques of Porsche, Audi, Bentley, Bugatti, and Lamborghini, and at the lower end, the Seat, Skoda, and Scania. What type of diversification is Volkswagen pursuing? What are the advantages and disadvantages in VW's corporate strategy?
5. In the recent past, both GM and Toyota ran into problems as they chased the goal of becoming the world's leader in terms of unit sales. GM achieved this goal but lost billions of dollars in the process and ended up in bankruptcy (in 2009). Toyota then pushed output and briefly held the number-one spot in terms of unit sales, but found that the emphasis on increasing output meant that quality issues arose, which then negatively affected its reputation. If you were asked to advise VW, what pitfalls would you point to that may need to be considered when attempting to be the world leader in unit output? How might VW avoid those pitfalls?

Endnotes

¹ Originally, the car's name was the Porsche 901, but Porsche had to change this designation because Peugeot claimed trademark infringement using the numbers "901." Porsche settled on 911—and has used that number ever since. See "1964 Porsche 901 prototype classic drive," *Motor Trend*, December 25, 2012.

² Volkswagen (VW) is a stock company owned by the holding company Porsche SE (50.73%), Porsche GmbH (2.37%), Federal State of Lower Saxony (20%), State of Qatar (17%), and the rest is widely distributed (9.90%). Besides its own VW brand, it owns the following brands: Audi, Bentley, Bugatti, Ducati, Giugiaro, Lamborghini, MAN, Porsche, Scania, Seat, and Skoda.

Sources: This MiniCase is based on: Porsche annual reports, 2003–2014; various Porsche press releases; www.porsche.com; "Porsche sales surge on demand for Macan, Cayenne SUVs," *The Wall Street Journal*, January 8, 2015; "Sportwagenbauer stößt in neue Dimensionen vor," *Wirtschaftswoche*, March 15, 2015; "Volkswagen Chairman Ferdinand Piech Resigns," *The Wall Street Journal*, April 25, 2015; "Porsche builds Macan crossover to win over women," *Bloomberg Businessweek*, August 7, 2014; "Is Porsche still a sports car maker?" *The Wall Street Journal*, May 29, 2013; "Porsche puts dollars behind sports cars again after pushing SUV, sedan," *Advertising Age*, April 18, 2011; and "The Porsche story: A fierce family feud," *Der Spiegel*, July 21, 2009.