The end of 2013 was a very exciting period in the long and successful history of Dr. Ing. Ferdinand Porsche AG (Porsche), the German luxury carmaker. In September of that year the Porsche 918 was presented, an extreme sports car with a hybrid engine of more than 800 horse power (HP) and a price of more than €750,000. In November, Porsche introduced the new Macan that, with an expected entry price of €48,000 1, became the most affordable Porsche to date (Exhibit 1).

The new models showed the wide product offering Porsche had achieved in just a decade. In the late 90’s Porsche mainly manufactured the iconic 911, but by 2014 the German manufacturer had six different models on offer: Boxster/Cayman, 911, Panamera, Cayenne, Macan and 918 (Exhibit 2&3).

Porsche had already achieved extraordinary success with its latest launches, such as the Porsche Cayenne and the Porsche Panamera. By continuously adding new models, Porsche had also showed its capacity to access a wider client base. However, the two new models could also bring additional complexity. Was Porsche ready to capitalize on its previous success? Was there any limit to Porsche's successful expansion? Was Porsche going beyond the limits of luxury?

THE AUTOMOBILE INDUSTRY

The economic downturn generated a shrinking demand in the car industry (Exhibit 4), although the outlook was slightly different from 2013. Some countries, such as the US and particularly India and China, were expected to experience an increase in car sales, whereas other regions would face a tougher situation. In the European Union car sales were at the same level as the 90’s 2.

The management of installed capacity was one of the keys, especially in Europe, where many argued that production volumes were simply excessive. It was estimated that from a total capacity of 25.5 million cars, only 20 million were produced in 2012 3. Cutting volume by closing manufacturing plants was an option, but not an easy one and certainly expensive (closing down a plant of 40,000 workers was estimated to cost €8 billion) 4. Likewise, big automobile plants were often seen as iconic national symbols. Consequently, political turmoil ensued every time closing an automobile plant was considered.

This situation led to fierce commercial competition based on price-cutting, promotions and special offers, which ultimately damaged the financial position of some players. However, there were some exceptions, such as the more effective global players including Toyota and the Volkswagen Group (VWG), which were less affected 5. In general terms, players faced a complicated landscape generated by a decline in sales, associated rising manufacturing costs and intense commercial competition.

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3 The Economist. “European carmakers. Too many cars, too few buyers. February 2012.
4 The Economist. “European carmakers. Too many cars, too few buyers. February 2012.
This was expected to lead to further industry concentration, which was significant as up until that point, the world’s top ten carmakers accounted for 80% of global production and 90% of US sales. In addition, clients in emerging markets were not satisfied with “pretty-good” cars, but showed a growing tendency towards up-scale cars. This also widened the gap between global players. While capacity for some declined from 79% to 70%, others, such as Germany’s leading manufacturers, opened new production lines.

THE LUXURY AUTOMOBILE INDUSTRY

The high-end of the industry seemed to play in a different league and projections for luxury cars were spectacular (Exhibit 5). China was estimated to become the main luxury car market by 2020, overtaking the US. The 2013 government change in China was expected to have a negative impact on the consumption of luxury goods. However, that was not the case for luxury cars, as the gift effect was not so important as in other luxury industries and only a tenth of the luxury cars sold in China were government related.

Among the different segments of the market, sport utility vehicles (SUVs) seemed to be the new star with SUV sales expected to grow more than any other segment (Exhibit 6). Furthermore, it was not only a matter of sales; SUVs were also one of the most profitable segments.

Consequently, most luxury manufacturers planned to enter the category. Bentley, a VWG company, had plans to launch an SUV in 2016, which was expected to represent 30% of their total sales. Lamborghini, also a VWG company, confirmed it would launch the Urus model, an SUV priced at around €150,000, in 2017. Maserati would launch its Levante SUV in 2015. The Italian brand, owned by the Fiat Group, planned to launch other lower range models (such as the Maserati Ghibli) and boost total sales up to 70,000 units, ten times more than sales for 2012. Jaguar, now owned by the Indian Tata Group, was also scheduled to launch an SUV in 2015, among other new models.

Luxury cars were not only different due to their beautiful designs, powerful engines or high quality finishing. They also represented a different competitive model in the industry. In some aspects one could say that the luxury car manufacturers had more similarities to other luxury industries than to the automobile industry itself.

The concept of exclusivity was paramount to these companies, with some players even opting to limit sales to below demand level. Despite its growth potential, Ferrari announced in 2012 that it intended to produce less than 7,000 cars per year to protect its brand image.

Marketing and brand building activities had more in common with other luxury firms where a more personal and exclusive approach was often used. For instance, specific locations and additional control over the buying experience was needed. This forced dealers to meet additional requirements in order to ensure a common experience, which was not an easy task to achieve.

The relationship between the client and the manufacturer was also different from that of the lower car segments, particularly in maintenance and post-sales. Many luxury car manufacturers tried to
provide exquisite customer service both at the point of sale and during maintenance and there was evidence that this significantly increased both customer loyalty and future sales.

Being able to provide the latest technologies and performance also implied a high R&D investment. Car conglomerates were perceived to create synergies in manufacturing, R&D and, to a lesser extent, in marketing activities. Likewise, it was not considered that Chinese car manufacturers could pose a serious threat to this segment of the industry.

**PORSCHE, A SUCCESSFUL TRANSFORMATION**

Dr. Ferdinand Porsche founded the company in 1931. Porsche was very well known, particularly for its 911 model. The fact that the 911 celebrated its 50th anniversary in 2013 demonstrated Porsche’s prestige. Porsche had remained an independent company with the majority stake (90%) controlled by the Piëch-Porsche family until 2008.

In the 90’s Porsche successfully diversified its product portfolio by adding the Porsche Boxster (1996) and thereafter continued to introduce new models with a high success rate: the Porsche Cayenne (2002), Porsche Cayman (2005) and the Porsche Panamera (2009) (Exhibit 2 and Exhibit 3).

This showed Porsche’s ability to identify the specific needs of luxury car clients. The clearest example of this was the Porsche Cayenne, a model received with some doubts in 2002, which went on to become an extraordinary success and rapidly amounted to 50% of total Porsche sales. With the Porsche Cayenne, the German luxury carmaker not only provided additional choice for its clients, but also created a new category, the luxury SUV.

As a result, the company that was once believed to be a one-car-firm transformed itself in just one decade into a luxury automobile corporation with a wider portfolio.

**PORSCHE AND VOLKSWAGEN, OLD FRIENDS**

Porsche and Volkswagen have always had a close relationship. For instance, Ferdinand Porsche himself designed the Beetle, one of the most successful Volkswagen cars ever. More recently, the corporations developed a chassis for the Porsche Cayenne and Volkswagen Touareg together.

However, their relationship experienced a major shift in 2008 when Porsche, under the leadership of Wolfgan Porsche, attempted a hostile takeover through a complex options strategy. VWG chairman Ferdinand Piëch, who was actually the cousin of Wolfgan Porsche and a member of the Piëch-Porsche family, was caught by surprise.

However, this turned into a nightmare for Porsche, as it was unable to achieve its objective and ended up heavily indebted. Furthermore, Porsche was the target of litigation proceedings by hedge funds as they considered that the lack of knowledge about this hostile takeover affected their investment in the company. As a result, it was actually VWG who came to the rescue and acquired 49.9% of Porsche for €3.9 billion in 2009. This deal also sparked a few additional changes in the management structure. Porsche’s CEO and CFO departed in September 2009 and VWG’s senior managers replaced their counterparts at Porsche, in addition to retaining their posts at VWG.

The VWG-Porsche deal represented both the tensions among the Piëch-Porsche family and its different views regarding the relationship between VWG and Porsche. The family based turmoil ended in August 2012 when VWG acquired the remaining 51.9% stake in Porsche for €4.4 billion.

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17 Reuters. “VW CEO says synergy plans for Porsche are realistic”. August 2009.