

**PRACTICE CASE OBJECTIVE:**

Study the aspects covered in the classroom regarding the corporative strategies of a large firm.

**WORK TO BE DONE:**

Read, on an individual basis, the attached report on Porsche, and then answer the discussion questions that follow.

If you are not skilled in the analysis of cases, you may find it worthwhile reading 'How to Conduct a Case Analysis' (a file you can find in the same folder as this document).

After working individually, share your findings with your work team and make a joint report with a maximum length of six pages (**no cover page is needed, just the title of the case and the team member names**), written using Calibri 11 with 1.5 interlining and justified text. Upload your report as a pdf file on Moodle, before the due date. The report is not to be presented in class.

Originality and professionalism will be highly valued.

## Has Porsche lost its way?

**WHEN PORSCHE REVEALED** its 911 sports car design in 1962, 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.

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 200,000<sup>th</sup> Cayenne unit only six years after its debut at the Paris Motor Show. In 2012, the Cayenne's worldwide sales reached a record 77,822 units, accounting for more than half of the company's overall sales volume (see Table 1). The popularity of Cayenne is seen across regions, especially in the U.S. and China, the two largest markets of Porsche overall (see Table 2). 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.

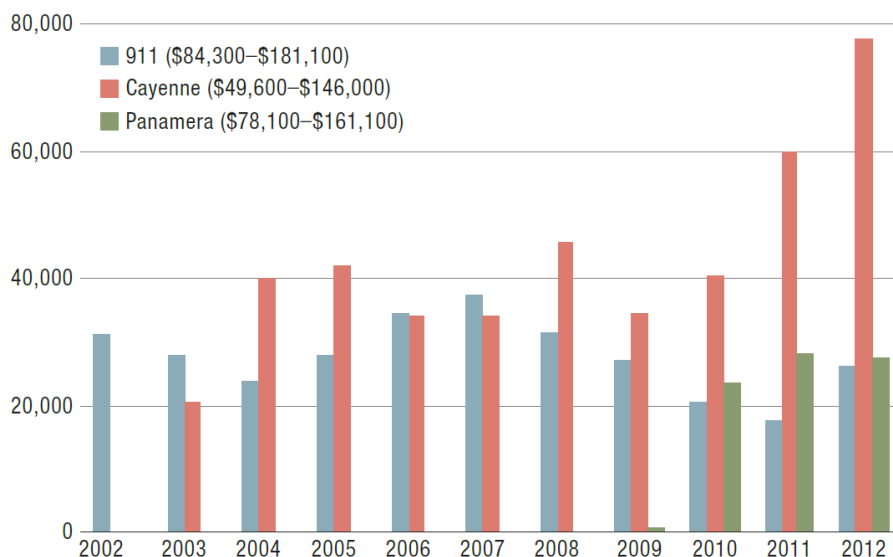
The Cayenne has made Porsche more appealing to people who are not sports-car drivers but are happy to own the sportiest SUV on the market. While the model expansion may upset the purists, Porsche did not stop there. In 2005, Porsche announced its plan to build a new model line Panamera, a premium-category four-seat sports sedan, to extend its customer base. The line was launched on time in 2009 and like Cayenne, it outsold the 911 in the subsequent years. As of 2012, Cayenne and Panamera together accounted for 73 per cent of Porsche's total sales volumes.

In the years leading up to the global financial crisis in 2008–2009, Porsche was attempting a hostile takeover of the much larger Volkswagen (VW). Part of the competition was motivated by a bitter family feud resulting from estranged members of the Porsche family 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 VW takeover attempt. VW turned the tables and took over Porsche in 2012. Now Porsche is clearly gunning for economies of scale as it ramps up unit sales, and VW overall is aiming to overtake GM and Toyota as the word leader in unit sales.

35 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. To achieve this goal, Porsche needs to inspire more buyers. It continues to push overseas sales of the Cayenne and the Panamera models, setting up more dealerships where growth is the strongest. To address potential customers’ concerns over the 911’s

40 drivability as an everyday vehicle, Porsche launched an advertising campaign titled “Engineered for Magic. Everyday”, in the U.S., featuring actual Porsche owners using their sports cars for daily activities, from commuting to work, to picking up their kids and running errands.

45 **Table 1: Porsche annual sales by model (in units)**



Note: as per Porsche’s Annual Reports. Pricing is manufacturer’s suggested retail price (MSRP) for USA in 2014

**Table 2: Porsche sales and deliveries by region in 2012**

	U.S.	China	Germany	Rest of Europe	Rest of World
<b>Total Sales (% of World Total):</b>					
	36,170 (25.3%)	33,590 (23.5%)	16,090 (11.2%)	31,094 (21.7%)	26,152 (18.3%)
<b>Deliveries by Model (% of Country Total):</b>					
911	8,528 (24.3%)	949 (3.0%)	5,238 (30.0%)	6,654 (20.7%)	4,088 (16.2%)
Cayenne	15,545 (44.4%)	19,959 (64.0%)	7,758 (44.4%)	16,966 (52.8%)	14,535 (57.7%)
Panamera	7,614 (21.7%)	9,148 (29.3%)	2,682 (15.3%)	5,262 (16.4%)	4,324 (17.2%)

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Note: as per Porsche's Annual Reports.

In 2012, Porsche revealed the name of its fifth model line, Macan—a compact SUV to be launched in 2014. The company is also considering the development of a smaller version of the Panamera.

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The essence of a Porsche—a high-performance sports car—seems now to take a back seat. Although the company has built “experience centres” in China and the U.S. to cultivate sports-car enthusiasts, Porsche only sold 26,203 units of the 911 in 2012, or 18 percent of Porsche's total sales volumes. Porsche's expansion success so far largely relies on its reputation as an iconic sports-car maker. At the same time, many of today's Cayenne buyers, such as soccer parents in the U.S. or Chinese businesspeople that like a chauffeur, have no idea about Porsche's true identity as a high-performance sports and race car manufacturer.

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## DISCUSSION QUESTIONS

Review the concepts of: Competitive Strategies and Corporate Strategies; Vertical Integration; and Diversification.

1. For many decades, Porsche pursued a high differentiation strategy (see slide 62 in Lesson 3). 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?

2. 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. Bugatti was incorporated from new in 1998, and the other brands came from acquisitions made in 1965 (Audi), 1990 (Seat), 1998 (Bentley and Lamborghini), 2000 (Skoda) and 2008 (Scania).

What type of diversification is Volkswagen pursuing?

What are the advantages and disadvantages in VW's corporate strategy?

3. 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 in the process and ended up in bankruptcy (in 2008). 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 out-put?

How might VW avoid those pitfalls?

4. 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?

5. This case started with a question. Has Porsche lost its way? Please, comment on that.