Manda: porsche and vw

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1 Introduction Today, the automobile industry is one of the most important industries in Germany and accounts for almost one fifth of the turnover of Germany's whole industry. Every seventh place of work is located in the automotive sector. 1 Yet, the automobile industry is confronted with changes and serious challenges. In spite of fundamental and very good future prospects, the automobile business is going to face stagnation and a downturn in growth rate nd market volume in the future. This is due to saturation of consumption and thus arisen over capacity. 2 Therefore the market becomes more and more competitive, especially since Asian car manufacturer entered the European market. 3 This competitive pressure forces companies in the automobile industry into a very careful pricing. This again leads to a higher competitive pressure. Especially smaller car producers are often economically unviable and taken over by bigger

competitors. That is why the automobile industry shows a growing concentration process. In 1960, there were 50 independent car anufacturers, while in 2004, there were only 12 left. These companies were characterized by a network of majority and minority interests. 4 A special case of a recent takeover is the one of Porsche and Volkswagen (VW). But at the beginning, VW was not the one which tried to take over Porsche. Quite the contrary, Porsche tried to take over VW which sells almost 60 times more cars than Porsche does. Thereby the question arises if a car manufacturer like Porsche should set itself the strategic target to take over a considerably bigger competitor and if this is actually possible. In the following, we re trying to find an answer to these questions by firstly introducing both parties involved. Afterwards, the financial strategy of Porsche is described in detail with the financial instruments used during the takeover process. Thereafter the reasons that caused the failure of Porsche's takeover plan and the consequences, namely the restructuring of the new corporation group, are pointed out. There are still investigations by the public prosecution department going on within Porsche. Due to these inquiries, there is no further internal information from both Porsche and VW available. Hence, we have o rely on information of available literature, mostly article from magazines and newspapers as well as the annual reports of both companies. 1 2 Cf. Bundesregierung (2007). Cf. Heigl, K. /Rennhak, C. (2008), p. 15. 3 Cf. Heigl, K. /Rennhak, C. (2008), p. 15. 4 Cf. Mattes, B. et al. (2004), p. 17. 5 2 Overview about the involved parties 2. 1 The two players of the act – Porsche and VW First of all, both parties of the merger are presented. Both Porsche and VW are internationally acting and well-? known companies located in the automobile industry in Germany. But there are many differences between

hem. Since the long takeover process started in spring 2005, facts and numbers that are used to compare the two companies are from that year. Porsche at that time had an alternative fiscal year. Therefore facts from their financial statement 2004/05 are used. As one can see in the following figure, VW's turnover is more than 14 times as much as Porsche's turnover. Given the huge difference in size, profits of Porsche and VW are close to each other. But there is an enormous difference in sales of Porsche and VW. In 2005, VW sold almost 60 times more cars than Porsche did. There is also an immense ifference in the number of employees. VW employed almost 30 times as much people as Porsche did in 2005. This figure shows very clear the vast difference in size of the two companies. Figure 1: comparison of Porsche and VW 5 5 Author's design based on Porsche's annual report 2004/2005 and VW's annual report 2005. 6 While VW owns 9 different brands, Porsche only exists of one brand. Clearly, Porsche is significantly smaller than the VW corporate group. And it appears almost absurd that a small company like Porsche tries to acquire a company that is many times bigger like VW. Therefore Porsche needed n excessively clever idea to attempt this takeover. 2. 2 Shared History of Porsche and VW In 1931, Ferdinand Porsche and his son Ferry Porsche founded a construction office in Stuttgart Zuffenhausen which was later headquarter of the Porsche AG. The development of Volkswagen is directly linked to Ferdinand Porsche and his outstanding construction talent. In 1943, Adolf Hitler ordered the construction of a compact car for the entire people. Ferdinand Porsche accepted the bid and developed the VW Kafer. The VW Kafer was produced in the present Wolfsburg and the plant was named " Volkswagenwerk".

Ferdinand Porsche became CEO of the subsequently founded Volkswagen G. m. b. H. 6 In 1948, the Allies entered into a contract with the trustees and the Porsche family. It was determined that, as license fee, the family Porsche was granted 1 “ Deutsche Mark” for every sold VW Kafer. When the production of the VW Kafer was stopped, 21. 5 million cars were sold. Another point of the contract was that the family was guaranteed to be the only importer of VW cars to Austria. And Porsche was allowed to work for other companies including his own construction office. Although both companies evolved in ifferent direction, there were still many cooperations and connections in the last years between them. 7 2. 3 Chronology of the takeover approach March 2005: The plan of taking over VW is presented to the families of Porsche and Piech. 8 September 25th, 2005: Porsche announces to join VW with 20 per cent thus being VW’s second biggest shareholder. According to Porsche, this action is based on the prevention of hostile takeovers by hedge funds and the protection of future business connections since VW had become an important development partner and supplier. At that time, no one knows what Porsche’s lans are. 9 September 28th, 2006: The European Court of Justice negotiates about des VW law. This law was constituted in 1960 when VW was privatized and transformed to a public company. It limits voting rights of shareholders to 20 per cent even if a shareholder actually owns more shares than 20 per cent. Besides that, the law also rules that important decisions need an acceptance rate of 80 per cent in the general meeting. Another important fact of the law is that the Federal State of Lower Saxony and the Federal Republic of Germany are entitled to hold two seats in the supervisory board. And if