Porsche college essay

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Porsche is a company that prides itself in quality and customer satisfaction. Because of this customers are always considered to be first priority for the company.

The only issue with this business method is that the shareholders do not feel valued. Porsche operates more like a family-owned firm instead of focusing mainly on shareholder value. While operating like a family-owned firm may be admired by some, it also has a downside. The company has been somewhat infamous for occasional stubbornness when it comes to disclosure and compliance with reporting requirements. Following these guidelines is a very important when trading publicly not only because it is a requirement, but also to establish trust with investors. Releasing reports based on the Sarbanes-Oxley Act as other companies do would greatly improve Porsche’s image.

Porsche sets itself apart from the many competitors in the auto industry because of the premium quality of the vehicles produced. It is because of this premium quality that Porsche is able to sell vehicles at such high ticket prices and continues to keep its customers satisfied. This success has created substantial shareholder value despite the company’s operating methods. Although Porsche has been very successful financially some may argue that it relies on currency hedging. Even though the currency hedging generated positive results it is still considered risky and shareholders would be happier if this strategy were no longer used.

In 2005 Porsche took a 20% ownership position in Volkswagen in order to eliminate possible hostile acquisitions of VW.

This investment cost 3 billion Euros. Shareholders were not happy with this decision and felt yet again unvalued, especially since the family linkages between the two companies were well known. Non-family shareholders were concerned that Porsche's leadership continued to pursue family objectives at the expense of its shareholders. Porsche could solve these shareholders' issue by trying to maximize the shareholders' value through pursing their interests instead of continuing to practice cronyism.

Case Summary

Despite the fact that most automobile companies in the world primarily focus on shareholders' value, Porsche, a German car manufacturer owned by two exclusive families, persists in its unique managerial/marketing strategies that let the company remain profitable.

Porsche, owned by the " Porsche and Piech families" who processed all voting rights, has gone back into the black since Porsche's new CEO, Dr. Wendelin Wiedeking, introduced a low-cost principle to the company by discontinuing old models and bringing in " Japanese manufacturing consultants". Although Porsche decided not to issue quarterly reports forced by " the Sarbanes-Oxley Act", the company announced a payout of " a special dividend of €14 per share" as well as growth of normal dividend in 2002. Most of compensations of " Porsche's senior management team" were basically performance-based.

In terms of profitability and financial condition, Porsche was great as shown that its ROIC was the highest among European automobile manufacturers.

However, about 40% of earnings of the company came from currency hedging between the US dollar and the euro in recent years.

In 2005 Porsche came out with the new Panamera, a forth main vehicle model, designed and manufactured in its in-house facility with €1 billion investment mostly financed by the company itself. In addition, Porsche decided to absorb Volkswagen, its important sales partner, via acquisition of 20% shares of VW on the pretext of maintaining good business relationships and preventing VW from any “ hostile acquisitions”.

1.

What strategic decisions made by Porsche over recent years had given rise to its extremely high return on invested capital? The primary reason of that is Porsche succeeded in achieving the highest operating margin in the industry by charging high prices on customers who have brand loyalty for the company’s automobiles. Although its capital turnover ratio, the second component of ROIC, was getting lower and “ one of the lowest in 2004” because of the accumulated cash in invested capital, Porsche’s return on invested capital remained high.

2. Vesi wondered if her position on Porsche might have to distinguish between the company’s ability to generate results for stockholders versus its willingness to do so.

What do you think? We think all companies should take shareholders’ value into consideration as long as they issue stocks publicly traded, and thus need to have some ability to at least stimulate the shareholders’ interest or

curiosity. Yet a company still has a choice whether to actually focus on its shareholders’ value like other companies do. This Porsche’s case clearly explains its unique managerial/marketing strategy that the company essentially focuses on cost control, development of new products, and brand loyalty and high quality of its automobiles that arouse customers’ desire to possess. Therefore, in our opinion, Porsche doesn’t put its shareholders’ value on the first priority, but it still has to show some returns (results) for its shareholders.

3. Is pursuing the interests of Porsche’s controlling families different from maximizing the return to its public share owners? “ Pursuing the interests of Porsche’s controlling families” seems different from “ maximizing the return to its public share owners” because in general increasing owner’s interests doesn’t necessarily mean maximizing shareholders’ interests.

Like other companies Porsche doesn’t really concentrate on its shareholders’ value but on “ current yearly profitability”. However, as the text “ Fundamentals of Multinational Finance” states that Porsche “ paid out a special dividend of €14 per share” after making big returns, it appears that “ pursuing the interests of Porsche’s controlling families” partially relates to the returns to its shareholders.

4. What is the current market capitalization for Porsche (in dollars)?