

A New Global Player - Analysts give thumbs up to the Porsche/VW/MAN/Scania group, in: *The Atlantic Times*, 05/31/2008

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By Marco Dalan

March 3 was Ferdinand Piëch's big day: First VW announced the majority takeover of Swedish truck manufacturer Scania and then the supervisory board at Porsche approved the planned Volkswagen buyout – expected in the second half of this year.

It has always been my goal to some day run a larger company than my grandfather did," VW supervisory board chairman and Porsche scion Ferdinand Piëch has said in the past. His grandfather was Ferdinand Porsche, the founder of the Porsche company and inventor of the VW Beetle. A successful takeover of VW would make his 71-year-old grandson's vision reality: a new "global corporation" that can offer customers everything from 1-liter subcompacts to 40-ton trucks.

Despite scattered resistance, no one doubts that this dream will come true. The question now is not if but when the David from Stuttgart-Zuffenhausen swallows the Goliath from Wolfsburg. When the two carmakers merge with truck manufacturers MAN and Scania, the result will be a formidable corporation with annual sales of €150 billion (\$235 billion) and almost 430,000 employees.



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Experts give Volkswagen-Porsche the thumbs up. "No other corporation in the world will be positioned like the future Porsche/VW/MAN/Scania group," said Nikolaus Soellner, car sector analyst at consultants A.T. Kearney. The group can serve the mass markets with its Volkswagen and Skoda brands and is enviably placed in the premium segment with Porsche and Audi.

"The Porsche-Volkswagen alliance is one of the few corporations that can potentially compete head to head with sector leader Toyota for market leadership and results in the longer term," said Stefan Bratzel, director of the Center of Automotive Research at the University of Applied Sciences (FHDW) in Bergisch-Gladbach. "And unlike the earlier Daimler-Chrysler merger, the Porsche-Volkswagen alliance won't have to bridge German-American cultural differences."

According to Bratzel, under the leadership of Porsche head Wendelin Wiedeking, the "Porsche mother company" will make sure that all projects deliver their planned returns. He says Volkswagen has proven that there are significant potential synergies between the mass and premium segments that would leave brands like Audi, VW or Porsche unharmed. "Daimler was wrong in denying that with its subsidiary Chrysler," said Bratzel. To augment this synergy, joint use of components, parts, and systems will become more prevalent than ever after the takeover.

The ambitious growth targets of Volkswagen, Audi, and Porsche could prove to be a risk. Implementing them will require a great deal of investment. And quality would have to be maintained at the same time. "Strict cost discipline will have to accompany a plausible growth strategy to keep them from biting off more than they can chew," Bratzel added. But Porsche has learned a lot from Toyota in the past few years and will be able to transfer its knowledge to VW.

"VW can learn a lot from Porsche," said Christopher Kummer, director of the Institute of Mergers, Acquisitions, and Alliances at Webster University in Vienna. Wiedeking streamlined production, accelerated processes and improved quality at Porsche, which was on the brink of insolvency at the beginning of the 1990s. Today, Porsche is the most profitable independent car manufacturer in the world.

But the rosy future is still overshadowed by dispute. Workers' representatives at Porsche and VW are at odds – they can't agree on a power structure. With more than 300,000 employees, VW will only have as many votes on the workers' council and supervisory boards of Porsche Holding GmbH, the company that will oversee Porsche and Volkswagen, as Porsche with its 12,000 workers. That made the Wolfsburgs particularly resentful at the company's general meeting on April 24, and is fueling a verbal battle between the unions representing Wolfsburg and Stuttgart.

Germany's controversial VW Act, which has protected the group from hostile takeovers, is an additional source of dispute. The European Court of Justice struck down the law in October. Since then, the VW works councils, Minister President Christian Wulff of Lower Saxony (where VW is based), and German Justice Minister Brigitte Zypries have all been fighting to have the VW Act renewed.

The motive for their commitment is simple. Lower Saxony wants to retain its influence at VW and use its minority stake of almost 20 percent to block any changes in location or production. In turn, the SPD wants to use the VW Act as a campaign issue for next year's federal election. Porsche, the European Commission, several German state leaders and Germany's economic minister, Michael Glos, are stubbornly fighting for the opposite outcome: an end to the VW Act.

Regardless of how that fight and the works council dispute play out, they won't stop the VW takeover. "No one will prevent us from taking the next step if we want to," Wiedeking said at the most recent Porsche general meeting. And often enough, the Porsche head has made it clear that he wants to do exactly that.