COLLA SINISTRA

Checkmate

Wendelin Wiedeking's plan to take over Volkswagen fails

By Ulrich Viehoever

The new man at the head of Porsche, Michael Macht, faces far tougher challenges than his predecessor, Wendelin Wiedeking. In addition to the company's onerous burden of debt, he will have to come to terms with the huge Volkswagen corporation and quietly integrate its new major stockholder, the Emirate of Qatar.

The gloomy mood at the Porsche factory in Stuttgart-Zuffenhausen matched the gray and overcast weather on July 23. The showdown was played out live at the factory yard in the presence of almost 5,000 workers. Then, employees were told about the long night at Porsche, when the tough power struggle for the future of the sports car manufacturer played out between CEO Wendelin Wiedeking, the divided Porsche-Piëch family and VW executives.

In the midst of tears and lengthy applause for the deposed Wiedeking, the driving force behind the company, Wolfgang Porsche, emissary of the powerful Porsche-Piëch family, passed on command of the company to Michael Macht. An engineer, he has been responsible for car production while sitting on the Porsche board. Macht has freely admitted that it will not be easy for him to follow in Wiedeking's footsteps.

Macht faces huge tasks of a highly volatile nature. After all, Wiedeking and CFO Holger Härter, who until recently had been celebrated as a financial genius before being fired, are leaving behind a financial shortfall probably far larger than the official number of €10 billion. This enormous debt is the result of the abysmal failure by Porsche to take over 75 percent of Volkswagen by buying up its corporate stocks.

Wiedeking and Härter were fully convinced that owning this huge share in VW would be the only way to control the giant in Wolfsburg. Unfortunately, they made no secret of their intentions – neither to Volkswagen, to the German government or to the state authorities in Hanover and Stuttgart. They soon drew mistrust and open hostility from many sides.

In the end, the brash David from Zuffenhausen bit off more than he could chew at the stock exchange and the Goliath of Wolfsburg landed back on his feet. The last block of stocks (more than 20 percent), which Wiedeking would have needed to fulfill his goal, became much more expensive than originally expected. That is because Porsche's purchases had caused the VW share price to skyrocket since late 2008. Suddenly, the southern German company, which had almost no debt, needed about €10 billion – and no bank was willing or able to lend Porsche this amount in March.

By this time, the world was firmly embroiled in the deepest financial and economic crisis since 1929-30. Many of Porsche's lenders such as the Royal Bank of Scotland, were themselves on the verge of bankruptcy. And the open credit worth billions is still a highly risky venture: The Stuttgart company was actually speculating with cash options in order to buy VW shares with this money. The game played by Wiedeking and Härter worked well for a long time until the speculation bubble burst.

Wiedeking's plan left a nasty taste in the mouth of his arch enemy: Ferdinand Piëch, the chairman of the VW supervisory board, grandson of the man who designed the Beetle, the major stockholder at Porsche and the powerful head of the family. In that plan, Piëch would have had to play second fiddle in the new power structure, while the cousin he never liked, Wolfgang Porsche, would take the top spot. Any constellation in which a Piëch would have to bow to a Porsche would automatically trigger resistance from Piëch. When the speculation debacle finally came out, he had just the argument to dislodge Wiedeking with a €50 million severance package.

However, Wiedeking only vacated his position as a partial loser. During that fateful night, he managed to push through two important decisions: The head office in Stuttgart would get about €5 billion in fresh capital due to an increase in capital stock; and the Emirate of Qatar would take a 20 percent stake in Volkswagen and also become involved in the risky options business. As a result, Porsche should soon have access to €10 billion.

It is still unclear in this operation how much of their own money the unpredictable Porsche-Piëch combo will contribute in order to resolve the corporate financial crisis. Wolfgang Porsche did make this assurance in the name of both families: "Future success depends on Porsche remaining Porsche." It remains to be seen whether this declaration from the clan will be worth billions. His VW cousin has not yet responded.

The appearance of the Sheikh of Qatar on the scene, instigated by Wiedeking, is as controversial as the subject of 'finances.' The clan had been using all the resources at their disposal since 1950 to prevent any outside influence from stepping in. Will Piëch tolerate this change after trying to stop it for so long? Most of the experiences with investors from the Gulf states have been positive (Kuwait and Dubai with Daimler, Iran with ThyssenKrupp). These countries make a long-term commitment, appreciate the "Made in Germany" label and discreetly remain in the background.

However, having to share power with so many new faces is a new experience for everyone. VW, the workers' councils and the IG Metall union all face the same problem: The more people that have a say in the planned "integrated group," the harder it will be to manage the huge entity.

The problem begins with Stuttgart. If the views of the Porsche-Piëchs have drifted so far apart in the third generation, how will the fourth and fifth generation act with more than 50 stockholders? And where will the headquarters of Porsche-VW Holding Company be in the future? In Stuttgart or in Wolfsburg?

In the light of such sensitive issues, Porsche does not only face a change of power in its company management but a new era. The sports car manufacturer will gradually lose its character as a family-run business; if for no other reason than that Porsche and VW will be mutually dependent: Porsche owns 51 percent of VW and, in return, nearly half of Porsche belongs to VW. This means that executives in Wolfsburg and Stuttgart will be facing highly complicated procedures in order to coordinate planning on a permanent basis.

In the light of all this to-ing and fro-ing at Europe's largest automobile manufacturer, the Porsche brand must not be allowed to suffer. So an agreement was made to allow the Stuttgart company to slip into the fold as the 10th brand in the Volkswagen group. Porsche's glamour may increase VW's prestige but the deal could do enormous damage to the Porsche image.

The very name "Volkswagen" (people's car) stands in stark contrast to the profile of the elite sports car brand that Porsche has nurtured. The VW group already has seven other brands. Of these, only Audi is positioned at the top end of the market and has a global slot like Porsche. All the other labels lack a clear-cut image – including the core brand, VW.

Macht must beware not to fall into the General Motors trap when it comes to his marketing strategy. The demise of the American giant was accelerated by its unmanageable, expensive mix of brands. In contrast, the Japanese carmaker Toyota deliberately operates a three-brand strategy around the globe: Toyota as the broad, worldwide umbrella brand; Lexus for the exclusive segment; and Daihatsu as the economy label. This stringent approach has taken Toyota to the top and should serve as an example to Macht. But because the other elements have not been clarified, he will have to prepare for a marathon rather than a sprint. ■

Difficult takeoff

Customers give Airbus another chance despite delays on the A400M | By Jens Flottau

Most likely Airbus won't be making a profit on the A400M military transport. And if current customers cut their orders, the company will end up paying for it.

PHOTOTHEK.NET/THOMAS KOEHLER

Observers say Airbus has overreached itself with the A400M.

It came as no surprise that the seven European defense ministers decided the way they did in late July. Yes, the Airbus A400M military transport aircraft will get a final chance to be re-launched in a financially and technically viable way. And if all goes well, it will be on its new development track by early 2010.

The fact is that countries like Germany, France, Spain, and the UK desperately need an aircraft with A400M capabilities. European air forces are flying Hercules C-130s or C-160 Transalls, smaller turboprop aircraft that have been in use for many decades. They are old and technologically out of date. Operational requirements have changed enormously in recent years as troops are deployed to locations like Iraq and Afghanistan – and the need for better transport aircraft has become even greater.

Given that, the threat to cancel A400M orders was not very convincing. European countries need a new aircraft that can fly large loads long-haul and is also capable of landing on a dirt airstrip in the middle of a war zone in Afghanistan.

There are few alternatives. The Boeing C-17 is too large; the latest version of the C-130 is too small; and there are question marks over the Antonov An-70 technology. And if Europeans were to order elsewhere in the world, they would kill off part of their own defense industry because no European manufacturer can build such an expensive program on export orders alone. Politically, there is virtually no way around a European aircraft.

The A400M is now much delayed; current projections put the first deliveries in 2013, whereas the original target was to hand over the first plane to the UK's Royal Air Force by the end of this year. Seven countries – Germany, France, the UK, Spain, Luxembourg, Turkey, and Belgium ordered a total of 180 aircraft in 2003 as part of a €20 billion development and production contract.

There are many reasons why Airbus and its parent company, EADS, are behind schedule. The most obvious one has to do with engines: The Europrop International (EPI) TP-400 still has only flown on a testbed and the engine software was only delivered to Airbus in June. Other military mission systems are still not ready.

Industry sources say the aircraft is now several tons overweight. That means it can still fly but unless big changes are made, it will not be able to carry as much cargo or fly as far as promised.

In negotiations over the next six months, Airbus Military will try to spread the financial burden. In 2003, EADS agreed to carry the financial and technological risk, a decision that officials now say was a huge mistake, for several reasons. They now pay for other people's mistakes too – for instance, those made by engine manufacturers. Nor did they take into account that several countries came up with additional mission or payload requirements that were hard to meet within the original time and technical framework.

Also, Airbus did not have any experience with military aircraft. The company only discovered that they are more complex than civil transports while building them. Their performance requirements are higher, and on top of the technology needed just for flying, many other features are required – such as a detailed terrain database, information feed, and a display showing where enemies are located. One computer even detects missiles fired at the A400M and proposes evasive action.

There are financial and technical problems to be solved in the upcoming negotiations. Airbus will have to find a way to distribute the financial burden so as not to have to carry more than the €2.4 billion in additional costs that it has already incurred. It is already clear that Airbus will never make a profit on the A400M if it does not get export orders in addition to the 180 aircraft now on order. And if any of the countries cut their orders – as proposed in Germany and the UK – the task will be even more difficult. But EADS CEO Louis Gallois sees great potential for sales to air forces in Asia and even the United States (if politics allow) because currently, there is no comparable aircraft.

The technical challenge is daunting, too. Airbus will have to find compromises with its customers, but one vital requirement will remain – the ability to fly heavy equipment nonstop from Europe to Afghanistan. If the A400M cannot do that, one of its key advantages over its predecessors will be lost, making the sales pitch more difficult. If air forces are not satisfied, they can still back out and opt for something else. That is why the next six months will be a critical period for the European defense industry. And because this is also about credibility, Airbus will have to do its utmost to get the plane in the air by the end of this year. ■