Porsche

Company Background

Porsche AG is a public limited company in the global automobile manufacturing industry, headquartered in Germany. Porsche specialises in sports cars (luxury cars) that are targeted towards the high-end market. The company's success factors include innovation, design and creativity. Porsche has been established since the 1930s, and therefore possesses a strong brand presence in its markets, which are mainly the developed and emerging economies.

Case Objective

"We will endeavour to maintain this top position in the future as well. The basic requirement is a continuous increase in the efficiency of all processes and the streamlining of structures." – Dr. Wendelin Wiedeking, President and CEO of the Porsche AG

The context of this case is Porsche's innovative modernization process in early 2000s, as a means to recover and reconquer its position as one of the world's leading sports car manufacturers. Based on the information provided, this case discusses the issues related to Porsche as a corporate entity, analyses the process of implementation of the Porsche Key Performance Indicators (KPI) System, and recommends strategies that could allow Porsche to extend its success in the global sports car industry in the future.

Company Analysis

Automobile Industry - Porsche AG's focus is predominantly in the sports car industry, which is a market with popular brand names such as Ferrari, Lamborghini, Audi and Mercedes. The oligopolistic market is one of luxury goods, and hence the price is a key factor of market demand. However, while price may be one of the factors considered by sports car buyers (and fans), there is a lot more emphasis given to the style, the speed and the strength i.e. consumer preferences. The sports car industry is global – both on the input side through the importation of the finest quality of spare parts and upholstery from all round the world, and the output side through the exportation of the finest cars to various markets around the world. By the very nature of the industry, firms in the industry are public limited companies (due to their size), and hence have a corporate strategy that focuses on increasing shareholder value through refining manufacturing processes, reducing wastage of resources (human capital and financial capital), embracing technology and innovation, building a strong brand presence, and maximising revenues and profits. The same is true also for Porsche AG.

Porsche's Strategy Diamond – Porsche's strategy diamond broadly comprises of the following:

- Arenas:
    - Product Categories – Sports Cars, SUVs.
    - Channels – Third-Party Dealerships.
    - Market Segments – High End, Sports.
    - Geographic Areas – Mainly Europe, North America and Emerging Markets.
- Vehicles:
    - Internal Development – Manufacturing Plants, Training Facilities.
    - Partner Dealerships – Points of Sale of Cars.
    - Acquisitions – Inputs and Small Automobile Companies.
    - Licensing – 'Porsche' Brand Royalties.
- Differentiators:
    - Image – Quality, Style, Power.
    - Price – Competitive, High End.
    - Styling – German, Innovative, Creative.
- Staging & Pacing:
    - Speed of Decision Making – Fast, Nuclear, Non-Hierarchical.
    - Implementation of KPI – Step-by-Step, Learning-by-Doing.
    - Expansion – Market Driven.
- Economic Logic:
    - Learning About Porsche AG and Dealerships through KPI System.
    - Cost Reduction through Efficiency and Performance.
    - Increase Revenues and Profits through Effective Marketing.

Organisational Structure – Looking at the current structure of Porsche, we can deduce that it has a matrix structure (divided by regional markets and functions) with elements of a network structure (small, semi-autonomous teams, such as the International Dealer Network Development team and the external alliances with the dealerships). Though the network structure provides Porsche with flexibility in its allocation of human resources across various areas of the business (and in turn enables Porsche to exploit emerging opportunities quick), it has also caused confusion as some functions of the business (such as training) are split between teams.

Partnership with Dealerships – Porsche cars are sold through third-party dealerships in various geographical markets. This setup enables Porsche to exploit local advantages (customer preferences, level of service) and global efficiencies (centralised manufacturing and decision-making). It also increases the pace of expansion as establishing its own dealerships would be a long and non-economical option. However, most of these dealerships also sell other brands of cars, hence Porsche faces direct competition from its competitors. There is also a likelihood of competitors following suit if Porsche's KPI System is successful. Having dealerships that already understand the balanced scorecard process will make it easier and cheaper for competitors to implement it as expensive costs of training the general managers and sales employees in various dealerships will not be necessary.

Porsche Key Performance Indicators Analysis

Rollout Process - Porsche possesses a culture of Kaizen – continuous improvement. With this notion, the company endeavours to form an efficient organisation with several key competencies. One of the strengths of Porsche is in its pace of decision-making – by having an organisation that is less hierarchical and more nuclear-based, it is able to implement its strategies in a fast and effective manner. The Key Performance Indicators (KPI) project was implemented through a dedicated in-house team (which familiarised itself with KPIs), plus an external consultancy (which was specifically chosen from a range of firms). This is a brilliant way of organising the rollout process as it combines technical expertise together with first-hand experience, and hence eliminates the knowing-doing gap. Furthermore, a step-by-step approach with constant communication with employees, managers and dealerships makes the project a lot more focused and supportive, as they all feel part of the process and are intrinsically motivated to contribute. Another benefit to Porsche was the fact that its Dealer Web Platform for Pre-owned Porsche provided significant feedback from all dealerships, which was also applicable to the KPI System. The Corporate KPI Conferences and awards are good developments for the future. However, as with any other major process, there is a heavy burden involved when resources are diverted to an exercise that does not produce results in the short run. Porsche should be wary of this issue.

Choice of Markets – Choosing France, Italy and the UK as the initial countries for the implementation of the KPI System was because these countries are more advanced economies and have the necessary infrastructure to implement the system. However, excluding the German market was not a good idea. Placing Germany instead of Italy would have eliminated the problems of reporting differences and data submission delays that PIT faced. It would have also reduced the cost of implementation (and risk), as German dealerships would have been easier to access.

Choice of Consultant – Involving a well-selected, external, experienced automotive IT consultant was a great idea. Though choosing a consultancy that had never worked with the headquarters of a multinational company was risky, the motivation that the consultancy worked with enabled it to deliver its services with utmost quality. The hotline service that the consultancy offered was also a great idea, as it vastly assisted dealerships to familiarise themselves with the KPI System and seek assistance on-the-spot.

Handbook for the Key Performance Indicator System – 'Restricted to the essence', this document provided the motivation behind the KPI, its purpose, its background, the underlying theories, description of the implementation and installation steps of the system, instructions of its use, descriptions and tips on approximately fifty main indicators. This surely doesn't sound like a document restricted to the essence, however, seems to have been beneficial in its purpose.

Resource Allocation and Efficiency – Looking at the Porsche Group Highlights, there are some noteworthy points to mention. Firstly, during the financial year of 2001/02, there was a rise in overall sales, both domestically and internationally. However, the rate of increase was only 9.37% from 2000/01 to 2001/02, as compared to 21.78% from 1999/00 to 2000/01. Is this due to the reallocation of resources from sales to the KPI implementation process? If so, then how long is the implementation process going to affect the sales growth in an adverse manner? Is the future sales growth likely to be significantly improved by the KPI System? Secondly, there was a decline in the production of cars in 2001/02. Was this the lower sales translating to lower production requirements? However, looking at the employee numbers, these rose in 2001/02, implying that there were more employees being hired. What are these employees being utilised for? Are they as efficient as before? The Group Highlights raise many questions that are only going to be answered as time goes on and the KPI System takes effect.

Recommendations

Develop Current KPI System – One of the developments that Porsche could make to the current KPI System is include the submission time of all the information by dealerships as an 'indicator' itself. This way, PIT would be receiving a red flag every time it delayed its submission of data, and would affect their performance record. Furthermore, the KPI System could be altered to allow corrected forms and reports to be sent to the dealerships and regional managers, so that these entities can use accurate information to make strategic decisions. There is a possibility that the handbook, flyer and circular are duplications of the hotline service that the consultancy provides. If this is the case, then it might make sense for some of these publications to be terminated and be more 'green'. A recommendation with regards to the awards scheme is to offer not only one award, but instead a handful of awards to dealerships that excel in different areas, e.g. best after-sales service, best marketing campaign, highest sales, and most informative dealership.

Implement Lean Manufacturing – Porsche is an organisation that produces cars – a manufactured product. While it may be important to improve the marketability of Porsche cars through its dealerships, it is equally important for it to focus on its systems and processes on the manufacturing side. This includes the sourcing of raw materials and spare parts, the research and development, the designing of the models, and the manufacturing of the cars. One option for Porsche would be to implement the lean manufacturing process. By focusing on ways to reduce wasteful activities on the production side of the business, Porsche will be able to lower its manufacturing costs, and in turn, make its cars a lot more competitive in the price-sensitive market. An organisation that provides a suitable model for Porsche to learn from is Toyota, which is a pioneer in this.

Extend Balanced Scorecard System to Manufacturing – An alternative to implementing lean manufacturing would be to implement the balance scorecard system on the manufacturing side of Porsche. Using different indicators than those of the dealership network, a KPI system on the manufacturing side of the company could promote cost efficiency and improve performance more generally. Indicators of suitability to the manufacturing process include: time taken to perform a particular task, product design ratings, percentage of defects, etc.

Enhance Organisational Structure – While Porsche's current matrix-cum-network structure is an effective skeleton for the company to succeed in its market, one development may be to combine the International Dealership Development team with the Porsche training department to form the Porsche Training and Development Department. By having one centralised division in charge of technical training, the KPI System and future staff development programs, Porsche will be able to reduce confusion and ambiguity of their roles, and the teams will be able to synergise to create more value in the organisation as a whole. The relationship with the IT consultancy that implemented the KPI System should be maintained for all future expansion of the program.

Change Remuneration Structure of Human Capital – Looking at the Group Highlights, we notice that Porsche's personnel expenses are not correlated to the production and sales. This is perhaps due to the fact that the workers are highly skilled individuals on a fixed salary, and Porsche is unwilling to make any employees redundant. This is clearly a sign that one of Porsche's key resources is its people and their capabilities are invaluable. However, considering that Porsche is implementing schemes such as the KPI System that are 'performance-oriented', there is scope for Porsche to shift its remuneration structure to a more behavioural control basis. Together with the direct motivation that behavioural control generates in employees, Porsche will also be able to make its personnel expenses more 'responsive' to the company's overall performance.

Initiate Strategy Communication with Shareholders – While all employees of Porsche were involved in the inception and implementation of the KPI System, other stakeholders, especially shareholders were not included in the process. Including shareholders in the process would allow Porsche to ensure that shareholders understand the short-term decline in performance of the company, and realise the longer-term benefit of implementing the system. Maintaining communication with shareholders would also keep the management accountable for the performance of Porsche as a company, which would enhance efficiency.

Strategize Future Expansion of KPI – As Porsche continues to implement its KPI System, one of the important ideas that it should keep in mind when communicating its strategy with stakeholders is the three Cs of strategy communication – contacts, cultural understanding, and credibility. This will ensure that the KPI System is accepted by the diverse cultures and organisational structures of various markets around the world. Differences in languages, metric units, currencies and accounting policies will have to be adhered to, and yet, brought to standardisation to enable comparisons between markets to be made. Embracing technology globally will be crucial to ensure that information that is inputted into the system is least affected by human errors. However, Porsche also needs to ensure that there is no duplication of resources, and that constant reviews are made to the KPI System to ensure that it continues to benefit the organisation in the long run.