

Beat: Business

Volkswagen taking fresh start: could Ferdinand Piech's empire be dismantled?

Questioning VW new strategy

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USPA NEWS - After Ferdinand Piëch's recent death, deep restructuring has been announced by the firm's management. After decades of rugged rapport with the board, the death of the automobile magnate, universally recognized as a business genius, unleashes years of frustrated ambitions and will probably lead to complete makeover of the group.

Consolidation after growth

Many among the younger generation never heard of the man, who traditionally kept to himself and a low media profile. But many of their elders grew up admiring Ferdinand Piëch for his seemingly endless string of spot-on intuitions, his feats and his aura. After being excluded from the Porsche industry, where he had already created the mythical 911, he successively took over developing brands (Audi and Volkswagen) and brought them to the top of their respective markets. Following that, he also brought back to life and developed Bugatti, Lamborghini and Bentley. From challenger to leader in just a few decades, the Volkswagen has developed stretch marks, and the furious desire to grow has brought it into murky waters, such as the Dieseltgate.

New ambitions

Both CEO Herbert Diess and Chairman Hans Dieter Pötsch have spent many years under the long shadow which Piëch cast. Even retired, the legend still wielded considerable influence on the group, forcing high-powered CEOs and chairmans to put dampers on their intuitions, especially since Piëch had been so keen to make heads roll within his board. The new deal will enable them to pursue their own objectives at last. Herbert Diess will be keen to consolidate the group and shift it into the new business era of electric vehicles, so as to finally put his own name of a Volkswagen success. He has little concern, other than marketing and damage control, with the Dieseltgate, as he was nominated post-crisis. Hans Dieter Pötsch, however, is directly targeted by the ongoing investigation, and will probably focus on keeping the Porsche empire together (he and Ferdinand Oliver Piëch are both prominent members of the Porsche "family" [?], who owns 30% of Volkswagen). The CEO will therefore likely pull the group towards innovation, while the chairman will perhaps push back towards preservation.

New challenges

The electric vehicle market is a tricky turn to take for Volkswagen. Electric vehicles are seen as the top of the market. However, the EV market is a long stretch for VW's current identity. First, because Volkswagen had invested so much into building the world's best diesel engines. Strategists within VW, however, will see electric vehicles as a fatality which should better be embraced. Finally, EVs have become the symbol of clean energy and ethical business, a position which VW largely lost during the still-fresh Dieseltgate scandal.

Selling crown jewels?

This may be the first bone of contention in this new Volkswagen era. Will the group continue its expansion (an option which Pötsch and other members of the Porsche Holding are likely to favor) or will it shed its smaller participations and focus on its core business (more likely, the choice of Diess)? Transmission manufacturer Renk, currently owned by VW and manufacturing gearboxes either for military, naval and industrial purpose, may be the first to find out. Renk operates on all markets, namely tracked armored vehicles. German arms manufacturer Rheinmetall is said to be interested in the acquisition of this industrial jewel, to focus its production abilities on its own defense segment. Should this sale come through, Renk would probably be dismantled, with the military division staying within Rheinmetall, and the rest being sold off. Reuters reported, last month, "German auto and defense supplier Rheinmetall and engineering group Voith are vying for transmissions maker Renk, which Volkswagen has put up for sale to free up funds for investment in electric vehicles, people close to the matter said." [?]

The Renk sale is assessed at the price of 700 million euros, which represents a fragment of what Volkswagen would need to invest into the EV market. Moreover, once middlemen are paid, would the three or four hundred million adequately compensate the loss of the valuable asset? Since 2000, Renk stock price has skyrocketed from 15 to over 100 euros, with 75% of the capital owned by Volkswagen, while providing steady dividends over 2% yearly. It would therefore be surprising that Wolfgang Porsche or Hans Michael Piëch, which are on VW's management board, would raise no eyebrows at the sale, given their conservative business style. Not to mention that the sale may social shockwaves if jobs are sacrificed by the acquirer, namely the non-military branches of the company.

What does the Land make of this?

Clearly, it's too early to tell. But as Ferdinand Piëch's influence network has vanished with him, it's rather clear that all bets are off. 12% of Volkswagen is owned by the State of Lower Saxony, historical Land of Volkswagen. The financial revenue generated by Volkswagen is only one of the stakes which the State has with the car-maker, as its political capital is also high. With stakes so tightly embedded within the Volkswagen empire, the Land has walked hand in hand with the manufacture, both in good times (such as Volkswagen spectacular consolidation through the 90s) and bad (the Dieselgate, for one).

The Land will probably be supportive of Volkswagen's strategy, provided that the board is in agreement, in its traditional supporting role. But because of its political association to the firm and the sensitive nature of military equipment, it will probably be particularly cautious as to who the acquirer might be, and the conditions under which the operation is carried out. Indeed, Renk would be at risk of being dismembered (Rheinmetall is only interested in the military division) and salaries are considerably lower within Rheinmetall than within Renk, a situation which could lead to massive social damage and conflict with Germany's labor unions.

As often happens after a long period under firm authority, the executive board has set the bearing, while the historical owners remain unusually silent. Does the silence reflect consent, or have the heirs lost so much power to the executive board that they no longer wield any influence on the company? The sale of Renk could indeed mark the beginning of a new era.

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UPA United Press Agency LTD
483 Green Lanes
UK, London N13NV 4BS
contact (at) unitedpressagency.com
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