

Nokia, bloody but unbowed

Best-paid CEOs in America

Morgan Grenfell's \$200 million mess

Acer's last ace

Share activists take on Asia Inc.

May 14, 2001
www.forbes.com

Forbes

global

Can Ferrari's CEO
LUCA CORDERO DI MONTEZEMOLO
pull off a win with Maserati in
recession-prone America?

Italian Mystique

PAGE 36



Argentina	Peso 8.00	Greece	GRD 1,200	Portugal	Esc 750
Austria	S 60	Italy	Lit 7,500	Saudi Arabia	SR 14.00
Belgium	BF 175	Lebanon	LL 5,000	Spain	Ptas 675
Euro	4.20	Mexico	Pesos 35	Switzerland	SFr 750
France	F 27.00	Netherlands	F 9.95	United Kingdom	£2.95
Germany	DM 11.00	Norway	Kr 40	United States	US \$4.95

Maserati's mystique

Can Luca Cordero di Montezemolo, Ferrari's CEO, pull off a win with an Italian Thoroughbred in recession-prone America?

BY ALEXANDRA KIRKMAN

This seems to be the worst possible time to relaunch a luxury car brand in the U.S.—even if the name is Maserati. The American economy is rapidly decelerating, and \$3 trillion of U.S. stock market wealth has evaporated in the past year. Car sales in America are expected to contract by 9% this year and 9% next, according to Autopolis, a British auto consultancy.

Undaunted, the man behind the relaunch of the Maserati name is pressing hard on the accelerator. “We want Maserati to become one of the top luxury car brands in the U.S.,” says Luca Cordero di Montezemolo, the charismatic CEO of Ferrari, which bought Maserati in 1997.

Is he crazy? Surely the first indulgence the newly less-rich are likely to forgo is an \$80,000 car. Sports car sales are especially vulnerable in a downturn: In the U.S.’ 1990–91 recession, Porsche’s sales slumped. Why should Maserati be able to buck the trend?

The relaunch of Maserati in the U.S. in early 2002, after an absence of more than a decade, is a gamble, but a calculated one. First-year sales are expected to be only 1,200 cars (of a total of 3,000 in 2002), making the U.S. Maserati’s biggest market. The aim is to produce 9,000 worldwide four years later, still only a fraction of Porsche’s current total of 50,000. “Maserati’s volumes are so low that the cycle timing won’t be too important,” says John Casesa, an analyst with

Merrill Lynch. “It will take two to three years to rebuild awareness, so a recession might just give the brand time to get established.”

With a name so fabled as Maserati’s, two years might even be an overestimate. When FORBES GLOBAL took a spin in March in the new Maserati 3200 GT in ultracynical Manhattan, heads turned. At a stoplight, a man ran from the lobby of a building and said, “Hey, is that a Maserati? Great car!”

The fact is that sales of luxury cars in the U.S. haven’t contracted in more than 20 years. “Maserati is a very powerful brand—many of the rich who buy its cars will still be able to afford one even if their stock portfolio drops like a stone,” says Graeme Maxton, the managing director of Autopolis.

Maserati will reenter the U.S. market with two models: the Spider, a two-seat convertible; and a four-seat coupe similar to the 3200 GT; they’ll be followed in 2003 by the Quattroporte sedan. The \$80,000 to \$100,000 price range pits Maserati against the Porsche 911 (\$66,500 to \$111,000) and the Jaguar XKR (\$85,000) as well as top-end offerings from BMW and Mercedes-Benz. Why would anybody choose a Maserati over the teutonic power of a Porsche or the British breeding of a Jag? According to Montezemolo, they lack a certain Italian flair. “Luxury is not enough anymore—the 1980s are over,” he declares. “I want customers with good taste who are looking for a unique emotion from driving, with an Italian flavor and the most advanced technology.”

The shape of things to come in the U.S. may be foreshadowed in Europe. Since being relaunched there in 1999, Maserati is already outselling the Jaguar XK series in Germany, Italy, France and Switzerland.

“Maserati is doing great things with



Luca Cordero di Montezemolo wants you to hop in and take a ride.

the brand,” admits Simon Sproule, the vice-president of communications for Jaguar North America. “We’re taking them very seriously.” Michael Schimpke, a spokesman for Porsche, agrees. “It’s a fine-looking car and definite competition for Porsche. Ferraris are seen less often on the roads than in the showrooms. The company can do more with Maserati.”

One reason Ferrari took over Maserati four years ago, acquiring it for an undisclosed sum from Fiat Auto (both Ferrari and Fiat Auto are subsidiaries of



GIULIEMO DE MICHELIS FOR FORBES

the Fiat Group). Montezemolo says that Ferraris will retain their scarcity value. He has no plans to produce more than 4,000 cars a year, Ferrari's output in 2000. Consequently, Maserati will be relied upon to generate growth. "We needed a less-expensive, less-exclusive but high-quality car. The Maserati client, product and location was much closer to Ferrari than to Fiat," says Montezemolo.

The irony of Maserati's rescue is not lost on those familiar with their fierce historical rivalry. Founded by the seven

Maserati brothers in 1914, Maserati was a leading maker and racer of sports cars, as well as a technical innovator. Enzo Ferrari founded his company in 1947. It quickly came to dominate the racing circuit, to the point that in 1953, Alberto Ascari, at the wheel of a Ferrari, narrowly beat Maserati's Juan Manuel Fangio to win the World Championship.

Ferrari has won more than 5,000 races around the world, 135 of them Formula One Grand Prix, and holds ten Formula One Driver's World Titles and ten Formula One Constructors' World Championships.

Today, there seems little danger that Maserati will cannibalize Ferrari's market. Although both are luxury brands, Ferraris cost \$140,000 to \$230,000 apiece, far more than Maseratis. "Ferrari and Maserati are two distinct, complementary markets," Montezemolo explains. "When you drive a Ferrari, it's an extreme experience—not just the speed but the acceleration, the braking, etc. Maserati is a high performance car for everyday use."

To emphasize the difference between the two brands, Ferrari dealers are required to have a separate Maserati showroom. Some 80% of Ferrari's 29 U.S. dealerships will sell Maserati, and there will also be a number of stand-alone dealerships. There is not much sharing of the cost of production between the two companies. Their plants are located on the outskirts of Bologna; Ferrari's in Maranello; Maserati's in Modena, about 17 kilometers away. Ferraris are made entirely of aluminum and have the engine in the middle of the car, behind the driver (like Ferrari's F1 cars); Maseratis are aluminum and steel, with the engine located in the front.

In March, Montezemolo took FORBES GLOBAL for a tour of Maserati's factory. Montezemolo, an energetic 53-year-old, bounds across the finishing room where the cars end up for final inspection. He greets the workers with a loud "Ciao, ragazzi!" and pumps the hand of an employee. He gestures at the high-ceilinged space around him. "When we bought

Maserati, we started more or less from scratch," he says, nodding approvingly. "This is not your standard car factory."

Indeed it is not. Built in 1939, the red-brick factory is a temple of technology and hand-forged attention to detail. Before Ferrari invested \$90 million in renovations, the factory produced just three cars a day. Now the cars move from station to station every 56 minutes. Daily output: nine cars.

Over the next five years, Ferrari will invest an additional \$300 million in Maserati, including the construction of a second production line to be completed at the end of this year. More than 40% of the money will go toward research and development. (Though Maserati's income is not separately disclosed, it expects to break even in 2003.)

Maserati sorely needed this kind of commitment, having been passed from one indifferent owner to another since 1968—first Citroën of France; then GEPI, an Italian state-owned financial institution; then Fiat Auto in 1993. Maserati acquired a reputation for unreliability under GEPI in the early 1980s, when output was increased too quickly.

Back then Maserati outsourced parts to the cheapest suppliers, resulting in faulty fuel pumps and turbocompressors. Substandard steel and poor-quality paint jobs caused the cars to rust after only two years. High maintenance costs and a limited service network left Maserati with a lot of unhappy customers. It withdrew from the U.S. market in 1989 and kept a low profile in Asia and Europe. (Maserati was relaunched in Asia in 1999.)

To make sure that history doesn't repeat itself, Maserati has put customers first this time around. Some 180 service centers and 80 body shops have been set up in Europe and Asia, with about 40 more service centers in the U.S. to come next year. Maserati now buys parts from many of Ferrari's suppliers—including braking systems from Italy's Brembo and tires from Michelin—to insure the highest quality.

There is also little that Montezemolo won't do to accommodate customers'

requests. "If you come to me with denim and want that in the interior, I will do that for you." Customers can even choose the color of the stitching of the leather upholstery.

While Maserati is Montezemolo's latest project, he has also done a bang-up job at Ferrari. Under his leadership, Ferrari, which is 90% owned by Fiat Group (2000 revenues: \$53 billion) and 10% by Enzo Ferrari's son Piero, has increased production from 2,200 cars in 1993 to 4,000 in 2000. Last year Ferrari won both the Formula One Drivers' and Constructors' championships. Ferrari forecasts revenues of \$820 million for fiscal year 2000, up 20% from 1999. Its expected pretax profits: \$17 million—more than twice 1999's.

With earnings before interest and taxes of \$42 million, Ferrari's 5% operating margin is only half of BMW's, but Jim Wright, an auto analyst at Lehman Brothers in London, thinks that there are other factors to consider. The company's massive investment in Maserati—\$90 million so far, \$300 million more in coming years—is squeezing margins, and Wright hypothesizes that Ferrari reinvests as much profit as possible in research and development to avoid Italy's steep corporate tax rate of 36%.

He also suspects that Ferrari may reap additional profits from its Formula One activities, but its racing income, if any, is hidden somewhere in the Fiat Group's complex income statement. (The company refuses to comment on the money it earns from Formula One racing.)

In any case, much of Ferrari's success is due to the energetic Montezemolo, who went to Columbia University law school in New York and later managed Ferrari's Formula One Racing team from 1973 to 1977. After stints at Cinzano International and as general manager of Italy's World Cup organizing committee from 1985 to 1990, Montezemolo returned to Ferrari as CEO in 1992.

Besides the racing and selling of cars, Montezemolo talks enthusiastically of the internet as a way of boosting profits. "For me the internet is a new channel of distri-



bution for the Ferrari market—it's very exciting," he enthuses. In December, Ferrari established Ferrari.net, a company that's devoted to developing and selling products and content through Ferrari's websites worldwide. In two months a new Ferrari site (yet to be named) will go online, offering Ferrari-branded merchandise and Ferrari-generated content to visitors around the world. Revenue will come from banner advertising and site sponsorship, e-commerce, and subscription-based content.

Already the top website in Italy, the current Ferrari site averages 500,000 page views a day. The presentation of Ferrari's new F1 car online drew more than 2 million hits the first day and more than 105 million Ferrari picture views.

Ferrari plans to use the internet to build on its \$20 million (in annual royalties) merchandising business by selling directly to users. "I don't lend the Ferrari brand to everyone—we make watches with Girard-Perregaux, toys with Mattel, video games with Electronic Arts," says Montezemolo. And he's optimistic about raising lots of advertising revenue. "Our clients are some of the wealthiest people in the world, and we are already getting 500,000 hits per day. Why wouldn't the best companies, like Gucci and Prada, advertise with us?" he asks.

He is also planning Maserati's return to the race track. Formula One is Ferrari's territory, but there are lots of other op-

Made to order: Maseratis are assembled to customers' specifications in Modena.

tions, such as Le Mans or the Indianapolis 500. Given the prices paid by such companies as Shell, FedEx and Marlboro to sponsor Ferrari's Formula One team—some estimates put the figure at \$100 million a season per sponsor—there is definitely money to be made by Maserati on the racing circuit.

With the development of the Ferrari and Maserati brands, the idea of releasing some of this increased value by hiving off Ferrari from Fiat and floating it is on the minds of many investors. Montezemolo merely says: "That's a question for my shareholders."

Analysts are less shy. "There is a definite question now of where Ferrari's future lies," says Wright. "The value of Ferrari is lost within the Fiat Group but could be realized if Ferrari went public." How much would it be worth? If you were to multiply Ferrari's estimated 2000 revenues of \$820 million by Porsche's price-to-sales multiple (market cap divided by sales) of 1.6, Ferrari would be valued at \$1.3 billion, without even considering the value of the brand.

With the new and improved Maserati, Montezemolo is broadening his customer base and expanding Ferrari's revenues. Despite a weak global economy, the company couldn't be better positioned for growth. **EQ**