

Interview

Driven by Integrity

An Interview with Johan de Nysschen,
Executive Vice President, Audi of America, Inc.

EDITORS' NOTE *Joining Audi of America after many successful international assignments for the Audi brand, Johan de Nysschen most recently served as President of Audi Japan. Prior to joining Audi Japan in 1999, de Nysschen held various management positions in the automotive industry, for a total of 15 years. During this time he earned his M.B.A. from the University of Pretoria in South Africa. Between 1981 and 1990, de Nysschen occupied positions in the plastics and automotive components industry, and in government service.*

COMPANY BRIEF *Headquartered in Herndon, Virginia, Audi of America Inc. (www.audiusa.com) and its 270 dealers offer a full line of German-engineered luxury vehicles. The Audi lineup includes 23 models, 12 of which were launched during model years 2008 and 2009. In 2007, Audi of America's parent company, Ingolstadt, Germany-based Audi AG recorded its 12th consecutive record year for sales and profit growth. Audi AG is a 99 percent owned subsidiary of Volkswagen AG.*

Part of the Volkswagen Group, the Audi brand had a 20 percent increase in sales last year. With the difficult times we are dealing with at present, how do you view Audi and its prospects for continued success?

Audi has been on a formidable product offensive for some time. We have totally refreshed our entire product lineup, and we've also entered into new market segments where, previously, the brand had not been positioned. But it's not just the product-driven offensive; we're also working a great deal on developing new markets for the brand globally. Audi has been one of the most successful luxury car companies in terms of volume growth since 1992. In fact, we've established new global sales records and profitability records – it's important that the two are linked – every year since 1992. So we've come off a very solid platform for growth, but this growth has largely been focused in Europe. It is time for us to take



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the brand to a more global level. Hence, our current focus is on Asia and North America, where there are great volume opportunities. Audi in the U.S. is not as well known, nor as well established, as it is in Europe, and the volume differential between our position in the United States versus our key strategic competitors is quite large. That gives us a lot of headroom for continued growth opportunities. We're investing heavily in network development, which is an area that is very important to securing a strong foothold in the U.S., and

together with our dealer body, we will be investing around \$1 billion in upgrading our facilities and expanding our footprint. In conjunction with the product portfolio that I referred to and also the ever-increasing stature of the brand, this should set us up for continued growth, despite the adverse economic conditions of the time.

So you see reasons to remain optimistic.

Yes. We have taken a lot of proactive steps to ensure that we are able to weather this economic storm. We have taken steps to reduce structural costs and to enhance profitability by aggressively branching into a market segment that our dealers, in the past, had not really paid much attention to: the business for used Audi vehicles. Today, we have substantial influence over this important source of revenue, and it means that we will effectively cover a far wider range of price points with our brand in the U.S. than you might traditionally think of. We have also established a good quality reputation, which is rooted in the fact that warranty costs are very much under control. So we are in the right shape to weather the economic malaise.

You've changed the whole feeling of Audi in the Western world, and in the United States in particular, in that you have a reputation for excellent engineering and also for being safe. How did you achieve that?

We have followed an approach that is reflective of the relative size constraints we have as a U.S. corporation. While we are a successful company internationally, in the U.S., we have a smaller voice, and so we have to target our marketing communications investments very carefully. We did not attempt to conquer the entire United States at once. We've identified 25 key markets, which among them represent just shy of 80 percent of our total volume in the U.S. We have focused on marketing communications, and PR activity, as well as network development aspects in these markets, so that we can really get critical mass in terms of representation. If you were to do a consumer survey across America, you'd come up with

a different result than if you were to do your surveys only in the markets that we have addressed. We've been very successful in markets like New York, Miami, and Los Angeles, where opinions for America are shaped, and that is how we are bringing our message and building understanding among the people of America. Our communications approach has also been a little bit adventurous and slightly provocative. If you want to get the attention of the American consumer, you'd best punch him on the nose, because it is an environment that is absolutely saturated with communication from everybody. So you have to be really bold to cut through all the clutter.

How are you upgrading the Audi to accommodate the rising cost of fuel?

We have focused on smaller-capacity, high-efficiency engines for a very long time. Our racing program is our technical laboratory, and our successes on the track are unparalleled. With the A4, for example, we have a two-liter engine that performs better in terms of driving dynamics and acceleration than the three-liter engines of our competitors, but we offer a fuel consumption advantage of around 20 percent with our fuel straight injection technology, which was born on the racetrack. That is an example for the gasoline engines. We have similar examples with the new V6 engine that we introduced in the A6 model this fall.

Can you get just as much power with a fuel-saving engine?

There are various ways of configuring hybrid drive. On the one hand, you can configure it so that it comes in as a supplemental power to boost torque under acceleration. Under those circumstances, the hybrid propulsion is more of a power saver add-on component than a fuel-saving component. There is another way to configure it where you alternate between the regular gas engine and the electrical drive, and that configuration is more suitable for heavy stop-and-go traffic, such as you might encounter in Manhattan or in downtown Los Angeles, and under those circumstances, the hybrid drive does offer advantages. However, for the kind of driving conditions that are representative of most of America – lighter inter-suburban travel – we think modern, clean diesel technology offers a very compelling advantage over hybrid, whether you look at performance, fuel consumption, or emissions.

In what capacity will you introduce these elements to your customer?

In January 2009, we will be introducing our Audi Q7 TDI clean diesel SUV, or crossover vehicle. This car proves that with the benefit of technology, it's possible to have your cake and eat it too. There is no compromise necessary for the vehicle size Americans want, with phenomenal towing capacity and exhilarating acceleration, but the fuel consumption is approximately 30 percent less than the equivalent gas-powered car. Not only does this have a very favorable effect on the environment with lower CO² emissions and lower nitrous oxide emissions, but with our particular technology, we trap all the black soot that has traditionally been associated with diesels, so the exhaust is absolutely clean. But in terms of

the pure economic advantages of reduction in fuel consumption, if one-third of the vehicles in operation on the roads of America were powered by this diesel technology from the Audi Q7, we would save as much oil as we import annually from Saudi Arabia.

What problems or challenges are you currently facing?

We never have problems. A problem is something you struggle to cope with; a challenge makes us more determined to find a way around it. I always say that you can put a wall in front of us, but we will find a way to go through it, around it, or over it – we will get to the other side, if that's where we want to be.

Did you always want to be in the car business?

Always. My grandparents used to think that I could read the newspaper as a three-year-old. What I was doing was paging through to look at the car ads. I'm told also that I used to call out all the cars on the road. I've always wanted to be in the car business. And fortunately, it's worked out that way. It's why my job is my hobby.

Where do you aim to be in the next five years or so, and how will you get there?

Audi in the U.S. has been on a strong growth path, and we will continue that momentum. We expect that with the availability of our clean diesel technology in 2009 and the full-year availability of the new Audi A4, as well as the Audi Q5 – which is a compact SUV that will be new to this market – we will have quite a strong growth impetus, and that should enable us to maintain critical mass in terms of dealer sales, despite the weak market. That will, in turn, support our financial performance. But rather than focus on volume, we want to focus on building brand awareness and recognition for what Audi really is. Our strategy is to aggressively familiarize the people of America with our brand, and to build, with our quality dealer network and high-quality cars, not only strong brand recognition, but also a strong reputation for service excellence. That will set us up for our next product offensive, which is to capitalize on these virtues for another strong growth phase. It is our objective within the next eight-year period to get to a point where our sales volumes will be above 150,000 units. Our objective is not so much to park our cars in as many driveways as possible, but to park them in the right driveways. Driver profile is an important element of success for a luxury car manufacturer.

How do you reach out to Audi employees and encourage them to collaborate on these goals?

We have regular all-employee meetings for our corporate headquarters staff, which we use as communication forums. Audi is a company that is very much about the brand, and we do a great deal of work to immerse our people in our brand DNA. For example, we recently took the entire company to a driving experience at the racetrack in Sonoma, California, where we gave everyone the opportunity to drive our entire product portfolio, as well as our competitors', so that our own employees could see the competitive advantage that we

have. We will also be taking the entire organization to Ingolstadt, in Bavaria, Germany, so that people can visit the global headquarters of Audi, feel the success and power of the brand, and see where the cars are created and born. This will give our team a good understanding of what this brand is all about. And it means that we will be able to have our people very much aligned with our objectives and our mission. I like to decentralize decision-making, because if everybody knows where we want to be, and they know what their role is, then, when faced with a challenge, they can make a decision proactively, right there – they don't have to wait or get guidance from a superior. We need to move forward boldly, and I encourage our people to take risks. Sometimes you'll make a mistake, and even that has value, as long as you learn from it.

What advice would you offer young people who want to go into business today, but who have been discouraged by the corruption they see? How can they be successful?

My advice to all people is that integrity is at the core of any successful business strategy. You need to be true to yourself, as well as the people who work with you. A disturbing element of corporate greed has set in. There's a problem with some of the values that we have in the world today. There is nothing wrong with good, hard, honest work. Effort needs to be rewarded, but there needs to be fairness in that reward. If people were to focus on adding value, rather than seeing how much they can extract from the system; that would be a good lesson for all.

As we talk about the bailouts of the banks, what we are faced with is a set of unpleasant alternatives. We needed to keep the liquidity of the financial system going, because the consequences of not doing so are too great. But at the same time, the shareholders of these banks, who went into these risky loans, had very high returns on those loans, and corporate greed set in. Those shareholders were handsomely rewarded for quite some time, and the executives who ran these companies took away bonuses that were obscene. And now, when the truth emerges and when the risk materializes, the taxpayer has to shoulder the burden, and that's simply wrong. I'm not a highly trained economist – I only know enough to run my little company – but wouldn't it have been a fairer approach to simply give them the loans that they needed to retain the liquidity, even if they were interest-free, even if the period for the payback was completely open-ended, just to get the liquidity back? But the stipulation should be that the money has to be repaid. For as long as the loan is outstanding, no dividends should be declared to the shareholders – and no bonuses should be allocated to the executives. That is imperative to getting these guys to run their businesses properly, without putting the burden on the taxpayer who has lived within his means, stretched as they are. It's unfair to expect the taxpayer to take on more of the burden, while other people who are involved in these businesses have extracted wealth in a manner that is clearly inappropriate. ●