



Luca de Meo

Speech

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**Speech at the
Automotive News World Congress**

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-Check against delivery-

Ladies and Gentlemen,

thank you for the invitation. Thanks to the Crain Family and Jason Stein for the opportunity to give a speech here today. To be the first speaker of this congress is an honor and a challenge at the same time with this fantastic line up of automotive top leaders. As the title of the congress correctly suggests we need to talk about a future – and I came here to do so.

I represent a company that puts the question for a better future at the center of its brand promise. In the US we claim “Truth in engineering”. But actually the original claim says “Vorsprung durch Technik”. The German word “Vorsprung” stands for progress and a progressive attitude that drives us to do things before anyone else. To be the first one introducing a solution for customer needs. It is the special recipe every Audi is made of. “Technik” is pretty self-explanatory, as we are proud of being a company of engineers.

Humanity has always been trying to find an adequate methodology to predict the future. If you look back on the forecast for 2010 from 2000, the only predictable fact is that predictions are mostly wrong – from voodoo practices, to astrology to algorithms. Who of you would put your pension into the hand of an algorithm? Some, probably, although this is actually happening with 80 percent of your pensions. Who of you would put the life of your family into the hands of an algorithm? None of you! We put our life in the hands of algorithms every time we start our cars. People have an incredible trust into our industry. I think we sometimes underrate our achievements.

There is a Venture Capital fund called Deep Knowledge Ventures based in Hong Kong. These guys elected an algorithm called VITAL as a board member with full voting rights. This here is the “personal access display device” or “padd” from Star Trek’s 1987 Next Generation, today known as Apple iPad. VITAL would have most likely denied a viable business case for this thing – as most analysts did back then. Don’t get me wrong. We believe in the power of data and logic. We see a huge potential in the field of intelligent data management, especially for our industry. But, algorithms lack in imagination.

That is why we decided to work a bit differently. We started to involve scientists, artists and a bunch of people with imagination to understand the future. We asked people like Bruce Sterling, the inventor of



cyber punk, Nobel prize winner Robert Loughlin and Darko Suvin, inventor of science fiction theory to imagine a typical day in ten years time. The different perspectives on this typical day in the future we call “super fiction”. They all come together in a project called “Tuesday 2025”. Why 2025? Because it’s not so far away for us. It’s only 10 years from now. Why Tuesday? It’s a Tuesday, like today. And Tuesday is supposed to be the most productive day of the week – so it should be a very productive congress today.

There are three out of six super fictions, I would like to share with you today. Gated communities, artificial intelligence and virtual reality. The future is uncertain, but one thing is very clear for me: The competition between the premium brands like Mercedes, BMW and Audi will continue, because thanks God, people will see the same things in different ways. Guess who is the future customer of which brand when they talk about their experiences in the three super fiction scenarios that in the meantime would have become reality. Many of our findings in our super fictions look crazy at the first glance. But once you are familiar with it, you recognize that some future scenarios are already reality.

For example in many science fiction stories you find the concept of **gated communities**. They are already quite established in some parts of the world. Probably you have heard about an entire quarter that was built on the outskirts of Moscow – for billionaires only! Then there is Alphaville next to Sao Paulo. Alphaville is a 50,000 people compound and the biggest gated community in the world.

The implication from these gated communities: People probably need several cars. They will need a small autonomous driving car within the gated community and something like a fast cruiser whenever they go out. This will also change the behavior of owning or simply using cars for mobility needs. That already takes place in some cities. I personally know people who own a 911 and use car sharing. That is a new behavior. As an answer, we recently launched Audi unite in Stockholm. It’s a peer-to-peer community based premium car sharing to offer a group of friends, neighbors or colleagues to drive a sports car, to have access to a SUV, when they need to go into the snow or to enjoy a ride in a convertible when they want to impress a girl or boy.

So far, we always built cars like this: no matter what kind of car it is, every car can do a bit of everything. Maybe the future looks different. Customers will have the best fitting car for a certain function – like shoes or sportswear today. And our engineers and designers will then have the chance to develop the best possible car and not a compromise to fit all use cases. So as a car guy or petrol head, I guess Ferry Porsche was right, when he predicted that “the last car ever built will be a sports car”. I am sure my friend Bernhard Maier will agree on this. At the same time, the electric car that enables moving pollution outside of the gated communities is inevitable. Maybe, it is forced more by regulation than by customer demand, but it will come.

Another topic that plays a big role in our Tuesday 2025 project is **artificial intelligence**: It describes a world of intelligent things, of truly smart objects. Syd Mead, the visual futurist, who has given a face to future developments in transportation and the automotive industry for decades, once said: “Science fiction is reality ahead of schedule.” He imagined in the 1980s, in lectures given here in Detroit, that cars would turn into “electric horses”. Why electric horses? Well, in the Wild West, cowboys would get drunk. And they would stumble out of the saloon drunk, get on their horses, and the horse would find its way to the barn.

Think of real intelligent cars. That vision isn’t far away. We might have to rethink the used car market. The older a self-learning car gets the more valuable it might become – more valuable than a new one. Because



it has more experience. What a great business case is that! The first step into the direction of real artificial intelligence is digitalization. Already today, digitalization heavily impacts our business model.

Let's have a look at the concrete stuff we are working on. Digitalization brings big change to our industry: Vehicles will become auto-mobiles in the literal sense of the word. The first real autos. At first, there is the story of super safety and we know how to sell it. ABS, ESP, Airbags one two three four five, you name it. Technology takes over where human beings fail. This story needs to be filled with new ideas.

90 percent of accidents happen by human error. Piloted driving will make our streets significantly safer. The new thing is super comfort. Piloted driving reduces inconvenient tasks and it frees up time for the driver. Time is the most valuable thing in life. When cars park themselves every driver can save 100 hours and more than 400 \$ of fuel costs per year as you no longer have to search for a parking space. In effect, parking spaces and CO₂ can both be reduced by 30 percent. Fully leveraging all of the opportunities of piloted driving will keep us busy for a while – and who knows? If we add artificial intelligence into the mix, we might make yet another SciFi vision come true in the future. I think, all of you remember this American icon, right?

Digitalization, the enabler of artificial intelligence, already also heavily impacts retail business as online sales seems to be the new trend also in our industry. Will digitalization kill the dealership? No, it won't. Especially in the upper segment there is a big misunderstanding that premium is only related to the product. It is a lot about experiences and service. Retail provides these "soft skills" of premium experience. That is why we have built a 15-billion-dollar-network with about 100,000 employees over the last 20 years. And that is also why the classic dealership will still be the core of any evolved retail ecosystem we might pursue.

We all know that earning money in retail is a lot about efficiency. And digital and big data is the key. We at Audi will reduce the unproductive time of our salesmen by 20 percent simply by moving tasks like online booking for test drives online and by introducing a first wave of predictive and analytic software packages to our dealerships. By doing so, we can give 90 minutes back to our sales guys every day to do the things only human beings can do: Fascinating and engaging with customers. Our dealer in Rochester Hills, right here next to Detroit, will know for example that people in his area are pretty often searching the online stock for the new Audi S3*. He will be prepared to have an S3 as a demo car. And probably some S3 on stock with the right specs.

We launched a mobility service that gives you the option to test drive different models for one year. We call it Audi select. The trick here was to take used cars sitting on stock at dealership. Our experience says that people are willing to pay more for the one year test experience with used models than leasing a new car – because of freedom of choice. It's a challenge to have the right model, but digital and mobile technology makes it possible.

The last super fiction I'd like to share with you is about **virtual reality**. You might know the inventor of cyberspace, science fiction author William Gibson out of the eighties. World Wide Web, Matrix, Avatars, Cyber glasses. His vision of virtuality is real now. This is Hatsune Miku – a piece of software, a hologram. Hatsune Miku has performed over 100,000 original songs and more than 2 million Facebook followers and counting – more than any other pop star in Japan. She is not selling songs but software – with revenues of more than 150 million US dollars in the last seven years. Her name means by the way „future of music“.



The last ten years, the time for virtual reality experiences in the United States increased by 150 percent to 6.3 hours per week per capita. And this is the same time people spend for real-time driving in cars. You see, it is a big thing. This is the Audi Virtual Reality experience. It is the most flexible sales format ever invented for the car industry, which historically is known as very capital intensive. The Audi dealers can show for the first time the entire model range conveniently wherever the customer wants: in boutique shops or premium downtown shopping malls, in customers living rooms or at work and at racing tracks, especially important for a sporty brand like Audi.

With the Audi Virtual Reality experience, you can look inside and outside the vehicle and configure your dream vehicle in real time in never seen details. Just for the Audi A3*, there are more than 30 million renderings over all models and derivatives. In other words, the dealer equips his sales guys with a “dealership in a pocket”. With the Audi Virtual Reality experience, we enter a complete new dimension of market exploitation in the automotive industry especially in emerging markets – where full functional dealerships are not feasible in the set-up years. That is why we have launched the Audi Virtual Reality experience in Brazil as a pilot market last month. We are convinced that the Audi Virtual Reality experience will do a great deal for our dealers to convert the virtual car into real sales.

All this sounds great – but in order to be successful there are two tough nuts to be cracked. Today, carmakers think of the car as an isolated object and have optimized processes and streamlined their key competencies accordingly. The industry works with product and organization oriented managers and engineers. But what we actually need are people that think ecosystem. Designers could also build interfaces and ecosystems, not only clay models. Our purchasing guys could buy the time of developers, not just parts and components. We have to look beyond the 6-8-10 square meters of our product and look at the system to find new opportunity. In one slogan – looking at a car bigger than the car! This was one of my key topics last year on the ANE conference. But it’s still as relevant as twelve month ago.

In a way, the airplane has always been bigger than the airplane. Planes have to communicate with other planes. Planes also cross borders quickly. So they have to communicate with different airports and navigation signals. And all of that had to be globally standardized. Actually, the European airlines did it. In 1919, they founded IATA. Look at another old economy OEM – a sneakers company. They connected the shoe with the smart phone and then they created a new currency: data. They call it rightly: Fuel. It drives many things: The customer uses it to organize a healthier life, the dealer finds more opportunity to sell, the brand improves marketing. The value is not in the fuel band hardware but in the fuel currency itself. That’s what I’m talking about: Keeping our product innovation focus but adding system innovation focus. The next money is in the ecosystem. The big industry question is “What’s the fuel of our industry?” What is the new deal? I believe, once these prerequisites are met for our industry, connected cars will form the foundation for many new services, businesses and revenue streams – exciting times.

Let’s sum it up: Facing these disruptive changes we have to make the right decisions – because our decisions matter. “Great power comes with great responsibility.” These are the words of Uncle Ben giving advice to his nephew, Spiderman. We were here for the last 100 years and we intend to stay for the next 100. We are not in it for a quick buck like many new economy startups. We are in it for the long haul.

* The collective fuel consumption of all models named above and available on the German market can be found in the list provided at the end of this speech.



I work in a company with more than 70,000 employees and their families, more than 2,800 retailers with more than 100,000 staff on retail level and more than 15 million customers worldwide. That is a lot of lives touched. And that is actually quite a lot of power, both to get it right or wrong. If there are two words of my speech that I want you to remember, they are „imagination“ and „responsibility“.

Thank you.

- End -

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Fuel consumption figures of the models named above

Audi S3:

Combined fuel consumption in l/100 km: 7.0 - 6.9;

Combined CO₂ emissions in g/km: 162 - 159

Audi A3 family:

Combined fuel consumption in l/100 km: 8.3 - 1.5;

Combined CO₂ emissions in g/km: 194 - 35