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Audi CEO Duesmann on EVs, the chip crisis and boosting Europe's high-tech prowess

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"We have to increase the amount of software developed in-house to far more than half," Audi CEO Markus Duesmann. "Automotive software will probably be the most complex software on the planet."

Audi CEO Markus Duesmann faces enormous challenges as the company embarks on an ambitious plan to become an electric-only brand. He shared his plan for this major shift, outlined

what the automaker is doing to offset the impact of the microchip shortage and explained why Europe needs to invest more in software and battery development. He discussed this and more with *Automotive News Europe* Associated Publisher and Editor Luca Ciferri and Correspondent Nathan Eddy.

How will Audi transition away from internal combustion engines to be an electric-only brand by 2033?

We have a clear plan regarding how long we will produce a combustion engine or hybrid model. By 2026, we will switch the model line to electric -- every new model will be all-electric by then. It was always our plan to focus on electrification. In our process of developing the new strategy, we defined this plan for every model. As a consequence, we will have the largest qualification program in our industry's history. We are now in the detailed planning phase for this transformation, so we know exactly what this means for the teams, the projects and for our production sites. It's all on track.

MEET THE BOSS

Name: Markus Duesmann

Title: Audi CEO

Age: 52

Main challenge: Transforming Audi into an electric-only brand by 2033 while protecting profitability and jobs.

Will we see Audi’s new flagship electric sedan, code-named Landjet and developed as part of Volkswagen Group’s Project Artemis, at the IAA in Munich? Will we also see versions of this that are planned for Porsche and Bentley?

You will get a glimpse at the Munich show of how our new models will look, starting with the interior as the main focus and then the exterior developed around that. What you will definitely not see is how models from our other brands might look because they will use the same architecture but not the same designs or user interfaces. But you will get an indication of how the interior might develop with Level 4 autonomy and you will also see the car being operated.

Did Project Artemis lose much of its independence with the departure of former leader Alexander Hitzinger?

Not at all. At a certain point you have to transfer a project to the series development departments. This is what happened. Within the Artemis project, we will now develop tools and methods that will result in even shorter development cycles in the future. The plan worked well and the project is on track.

What are the targets for CARIAD? What do you want to do in-house on the software side and what will you continue to outsource?

We have to increase the amount of software developed in-house to far more than half. Building CARIAD was by far one of the biggest steps we made in the last few years toward achieving that

goal because we bundled all our know-how [within Volkswagen Group] there. It's a huge step and we already see initial results such as the over-the-air updates at Volkswagen or our next operating system 1.2 for the Q6 e-tron. With the Artemis model we will introduce our 2.0 system, which will be the groundwork for the whole Volkswagen Group. So, that is well on track. Automotive software will probably be the most complex software on the planet.

Audi is taking over management of Bentley. Why do you expect this to be a success?

Thanks to all the work done by Porsche in the past we start from a very good position. We will integrate Bentley into the premium group because it makes sense to look for more synergies that both brands will be able to leverage. That was a major focus of this move. We have done this successfully already with Lamborghini and Ducati.

Will Bentley remain responsible for its own profit and loss statement?

Yes.

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It took 22 months between you signing your contract and starting at Audi because of conditions in your contract with your former employer, BMW. When you finally took over on April 1, 2020, you began a radical overhaul of Audi. Where do you stand 15 months later?

We have achieved a lot. We reviewed the organization, the product portfolio, the processes, and all of this under the cloud of COVID-19. The virus and all of the disruption it caused arrived at Audi before me, resulting in a near standstill. Despite this, Audi developed well during that time because our people were really willing to change and were open to reviewing everything because we were in crisis mode. My overall impression is that the crisis helped and as a result the transformation is going well.

Where are you making the quickest improvements and where is the progress slower than you would like?

The biggest thing for me is that we have a clear strategy and framework when it comes to topics such as electrification and digitalization [for instance, starting in 2026 Audi will only launch new all-electric models on the global market and it wants to phase out the combustion engine by

2033 in all markets except China]. Our targets for 2026 and 2033 are ambitious steps for us, but they provide a clear view to everybody on what must be done. When it comes to what I'm not happy about, it's too early to say because we have only just begun.

For the past five years Audi's operating profit has been anything but premium. Then came a 10 percent margin in first quarter of this year. How did you get there?

Audi had some difficult years, but we set up a successful efficiency program, we added new models that customers apparently like very much and we have a sales program that works very well. Our transformation plan that was defined three years ago also set us on a clear path. All this came together quite well and I'm confident about the performance we can deliver in the coming months and years.

Why didn't Audi adjust its guidance upward after reporting such strong results in Q1?

At the moment, we are cautiously optimistic that we will continue to perform well, but we will remain conservative with our guidance because of the uncertainties caused by the microchip shortage. It is really frustrating, but we know there will be an end to this crisis, we just don't know when.

What is your outlook for the European market as a whole and how will Audi perform?

We remain optimistic despite the limitations caused by the chip shortage.

Full-electric car sales in Europe slowed in the first quarter of 2021. Did this trend also affect Audi?

We are on target thanks to a 27 percent increase in sales of our electric models during the first quarter. It's true, the overall EV market in Europe slowed down a little bit, but not for us. We expect strong growth for our battery-electric vehicles helped by our recent launch of the Q4 e-tron. That gives us a push.

Europe this year is moving to a tougher CO2 target based on WLTP rules. What is Audi's new CO2 target and what is the percentage reduction you must achieve this year?

The exact target depends on the mix of the sold cars. For sure, it will be quite a challenge, but we assume that we will achieve the target.

Some of your competitors say the 2021 target is about 15 percent below the 2020 goal. Do you agree?

Yes, that fits. In the end, however, the 2021 target is more stringent, as fleet consumption is converted and special effects are eliminated.

The European Union recently introduced a mechanism to collect real world CO2 emissions and fuel consumption data from new cars and vans with a new on-board measurement system.

Green groups say this will show that plug-in hybrids are not as CO2 friendly as we were first told, putting their future in doubt. What is your opinion?

Plug-in hybrids are a bridge technology to e-mobility. However, battery-electric vehicles are the future. The plug-in hybrids we offer in most of our car lines help reduce CO2, but it's not our plan to increase the volume of plug-in hybrids. The target is to go to full-electric vehicles as soon as possible.

IN HIS OWN WORDS

Audi CEO Markus Duesmann talks about how he spent the 22 months that elapsed between his departure from BMW and his arrival at the VW Group subsidiary.

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How do you see Audi's powertrain mix by 2030?

We see huge differences between the different regions in the world. We are expecting combustion engines to account for less than 20 percent in Europe. It will be different in China and in the U.S. I recently spoke to more than 1,000 of our employees during a town hall meeting and remarked how different things were at Audi just 10 to 12 years ago. At that time, no one was predicting that the powertrain mix would change so rapidly.

By 2030 Audi plans to slash battery-cell costs by 50 percent. How many euros or dollars per kilowatt is that cost now and what will it be in 2030?

We don't communicate these numbers. What I can say is that we have a central organization for battery development and production because we know that battery costs will be a key factor in a car manufacturer's future financial results.

Is it true that the Euro 7 tailpipe pollution standards will be less stringent than expected? With this in mind, what is the future for your A1 and A3 compacts?

A lot will depend on the final Euro 7 target. We know that offering combustion engines in the smaller segments in the future will be pretty difficult because the costs will go up. Therefore, we won't have a successor to the A1. If the new Euro 7 rules are not too harsh, it will allow us to invest more in e-mobility.

How many jobs in Europe will be lost because of the move toward electric cars and how much of that loss will be offset by jobs created in other areas such as battery production?

We don't expect job losses because our plan is to increase global sales significantly by 2030. Therefore, we don't see big problems from this transformation. It's true that a lot of tasks involved in the produce of combustion engines will no longer exist. That is why we have a plan to

deal with this shift toward battery production and other jobs that must be done for electric vehicles.

To keep the same number of jobs you have now will you in-source things such as electric motor production?

Yes, we will. For example, our powertrain factory in Győr, Hungary, already builds electric motors, which are produced alongside combustion engines. That is part of the transition plan. I think the bigger risk is on the supplier side, where some companies are 100 percent dedicated to making components for combustion engines.

Toyota argues that full-electric vehicles are not very green from a well-to-wheel perspective, especially if you factor in the ecological impact of battery production and battery recycling. Do you agree?

If the world wants to stop using fossil fuels, that's the best and the greenest technology we have. Period.

On the distribution side, Audi is applying the agency sales model only to full-electric cars. Why does it make sense to have two distribution systems operating at the same time in the same network?

We are planning to introduce an agency sales model for full-electric vehicles in Europe to see how that works. But our dealers will continue to be the backbone of our distribution in the future regardless of what sales model we choose.

How many units is Audi on track to lose this year because of the chip shortage?

We are a five-digit number of cars behind at the moment. We are fighting hard every day to recover as many of those units as possible and reduce the high order backlog. We don't expect this problem to be completely solved by 2022.

What steps have you taken to offset the effects of the shortage?

We have set up a task force that is working on a number of ways to offset the effect of the shortage. This includes looking at how to build cars without some components and adding them afterward or re-specifying some components. It's an intense fight.

Who is responsible for this disaster?

No one because it was the perfect storm that combined COVID-19, lockdowns, a fire at Renesas' chip plant in Japan, a massive freeze in Texas that hit chip production there. What a disaster. It just happened and it couldn't be solved, despite the force of the entire automotive industry.

Stellantis CEO Carlos Tavares blames the problem on Tier 1 suppliers. Do you agree and will you rework parts of your supply chain in the aftermath of the crisis?

The entire supply chain experienced the problem. This system has worked well for years but the combination of factors caused it to collapse. We certainly will review our processes to make us more robust and to make the supply chain more robust. This could include buying chips directly from chipmakers and designing alternative semiconductors.

Some politicians in Europe want to add chip plants here to avoid a repeat of this crisis. Do you consider that a wise investment?

It's always good to locally produce high-tech products, and semiconductors are key for every industry. Therefore, it is very encouraging that politicians and companies are pushing to add production in Europe. We are already pushing to boost production of batteries in Europe and increase software competence in Europe, which is very positive. Being a through-and-through European, I find it very important for Europe to make sure we have production of high-tech products here. It's really wise to invest in these fields.

If you were given 20 billion euros to invest would you build one semiconductor plant or build four gigafactories?

Both must be done so I would split the money. Wait a minute, I also would want to invest in software development competencies. Therefore, I would invest one-third in each of the three. Although we are still absolutely world class in mechanical engineering, we have fallen behind in those three areas and we need to invest to catch up.

What is Audi doing to make itself as appealing as possible to lure software engineers, who might also have offers from tech giants such as Google and your carmaking rivals?

It is a tough competition, but what helps us is that we have our software teams in attractive places such as Ingolstadt, Munich and Berlin. Therefore, we don't have that many problems getting people. Especially with the clear intention of developing meaningful technology to keep the world in motion.

How many software engineers do you have now and what will that number be in five to 10 years?

We have currently 4,500 employees working at CARIAD, mainly software specialists, and the company is going to grow to a high four-digit number by the middle of this decade.

IN HIS OWN WORDS

Audi CEO Markus Duesmann talks about the future of business travel.

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Are you open to employing top-level software engineers even if they are in China, the U.S. or someplace other than Germany?

Yes, indeed. This is how we work today. We already have engineers who are not on this continent and work with us. We offer increased flexibility on where you work, a change that was accelerated by the pandemic. I think it will be the new normal for software engineers to work together from wherever they live. That being said, there is a certain benefit gained from working together in one location. When I started here in April, no one was in the office, but we made it work using tools such as video conferencing. This shows how much the world has changed due to COVID-19 and how much communication has changed. I think this increases our opportunities.

What percentage of your workforce is back in the office and what percentage of your team will continue to work from home?

It could be up to 30 percent of the white-collar workers who might continue to work from home. Right now, more than half of our workforce is still at home. That excludes, of course, the blue-collar production staff.

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