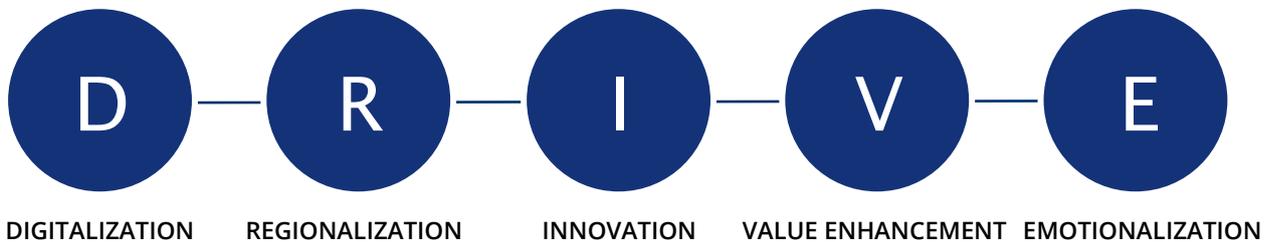


Sang Min Han & Dr. Engelbert Wimmer

THE IMPERATIVE TO DRIVE THE AUTO-INDUSTRY.

Interview of the Automotive Electronics Magazine in Korea with Dr. Engelbert Wimmer (POLARIXPARTNER).

In a recent interview with Automotive Electronics Dr. Engelbert Wimmer, Managing Director of POLARIXPARTNER, a Germany-based consulting specialist for the manufacturing industry, explained his view of the strategic actions required for the different players in the automotive industry. He named his strategy recommendation **DRIVE Auto**, whereby **D** stands for Digitalization, **R** for Regionalization, **I** for Innovation, **V** for Value enhancement and **E** for Emotionalization.



EXCERPT FROM THE INTERVIEW WITH DR. ENGELBERT WIMMER

1 | *Sang Min Han, Automotive Electronics Magazine Korea:* Dr. Wimmer, please tell us, how the outlook for the auto-industry is shaping up. Seemingly, there is quite a lot of positive momentum and growth happening.

Dr. Engelbert Wimmer: Yes, based on strong sales in China and the continuing US recovery the industry is currently thriving in a robust growth phase. Also we see a value-increase per car sold and a healthier segment-mix, which helps profitability.

2 | **All good then?**

I think it was Ronald Reagan, who, according to an anecdote, said he wanted to have a one-armed consultant, as consultants usually reply to questions with the dissatisfactory statement: “on the one hand ... and on the other hand”. Similarly I need to say: Yes, the auto-industry is growing but ... it is also true that the next decade will bring more change and turmoil to the industry, than all the last one hundred years put together.

3 | **Why is that? Can you please explain this in more detail?**

Of course. There are several issues nagging at the traditional pillars of the industry. One is the eroding interaction-chain along the line carmaker-dealer-customer. It is, simply put, disappearing



and being replaced by a sizzling social exchange of information, brand image, lifestyle-chit-chat, and hence a very complex digital networking exercise. Just a few years ago a carmaker could stand on the high-ground of coolness just by delivering clever design; and now we need to get much closer to the digital synapses of our customer base. As a consequence, in my appeal for “DRIVE in the industry” the big letter “D” – meaning Digital – replaces Design, which is more or less a commodity nowadays. Carmakers will therefore become digital hubs and this includes brand, dealer, bank and aftersales alike. This strategic impetus is enforced by Digital lifestyle trends and booming car connectivity.

4 | Speaking about connectivity and digitalization: BMW has launched telematics services as the first foreign OEM in Korea, opening a driving center and increasing their staff. How can this move be explained based on the global strategy of BMW?

BMW's approach is integrated in the "I" program and can be considered as being much more than an advanced move into the era of networked vehicles. It integrates advanced vehicles and mobility services into one innovation stream. With the business model it provides, it overshoots the traditional notion of "telematics" and establishes an innovation hub, which supports the evolution into a provider of "sustainable mobility concepts". BMW collects ideas on a global scale, tests them locally – region by region – after seed-financing ideas with their own venture fund BMW i-ventures and later wants to scale them up to a much larger population.

Within the "I" program you will find concepts like DriveNow, a very flexible car sharing platform that allows drivers to pay for the use of a car per the minute and leave the car on the road at any place: this is already in testing in Germany and the USA. Another service is named ParkNow, helping customers to identify and pre-book parking slots in an urban centre like San Francisco. Taking those ideas even further, with ParkAtMyHouse.com the BMW i-ventures expand public parking space with the possibility of offering private parking-space to foreigners for temporary use. What we are experiencing is the silent revolution of the car-as-a-product industry as it turns into a car-as-a-service industry.



5 | Another question regarding your “D”: Several OEM will be launching smartphone-based infotainment systems during the second half of this year – however Hyundai Kia Motor is the only company providing telematics services at the moment. Do you think that backbone-based telematics services which are linked to the core vehicle system will be essential for the future?

From a Korean standpoint the current service offering is scarce indeed, as until recently there has only been very limited roll-out of any telematics in this country. However, on a global level the picture is quite different. The famous OnStar from General Motors was founded as already as 1995 and launched in 1996 as a joint project between GM, EDS and Hughes Electronics Corp. The basis at that time was analogue services, which turned into digital in 2008. Despite the ups and downs in its corporate life the service has collected some six million subscribers and recently added a 600.000 subscriber base in China. Similar developments are happening with MyFord Touch or Lexus Link. Despite the problems in making the business model work for all the parties involved, the trend of a back-bone related telematics function in all markets cannot be stopped, providing as it does such a central means of increasing road safety and accident detection. In a world of connected things I am sure that the car will not remain offline for long. Detecting airbag-deployment, locating stolen vehicles, or emergency service notification will become global commodity functions in all cars in a decade from now.

6 | Lately there has been much discussion – especially in Europe – on the dark side of Digital. Shouldn't we be at the same time also concerned about data security and privacy?

This discussion has just begun on a global scale and is not restricted to Europe alone. Since the recent NSA scandals, even the Americans feel stressed by the intrusion of their privacy, which could be felt for instance at the last Google developer conference in San Francisco, where protesters disrupted the gathering. Providing and maintaining a trustworthy framework of policies on how to handle customer data will be crucial, as in the mid-term I see a future in which it will be easier to swap a car rather than the data-host and the digital brand in the background, which holds all my routing and driving preference data. A NSA-like scandal with one of the OEMs involved could completely shatter the industry. Also, the topic of digital security will be discussed very differently region by region, which leads to my next letter in my “DRIVE Strategy”, the “R”, which stands for regionalization.

7 | I was surprised to read that in your background-paper. Doesn't the regionalization idea stand in contrast to the globalization, which we all experience?

Actually, it does not. But more strongly than in the previous decades, where Automakers customized their approach to the regions they wanted to sell in, the next decade will ask them to really regionalize their effort on a new scale. A deeper understanding of local customers' needs will find its expression in local developments, which in turn will inflate car-lineups even further and increase the variance of products made locally. We will then be forced to increase local content even further for two reasons: regulatory requirements and cost pressure alike. Only by a continuous reshaping of the manufacturing footprint, including all sorts of knocked down shipments across the entire network, can the expected growth in the industry be anticipated in all regions.

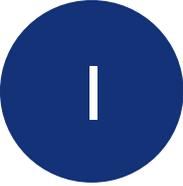


8 | For Korea, at the moment the market share of imported cars is over 10% and targeting 20% - and German OEMs are dominating the premium market. How will they cope with their biggest issues like expensive parts and high labour costs?

In all mature markets, the mix of brands on the street will become more "international". This is also true for Korea. Addressing high labour costs remains a challenge for all auto-players alike – and the German production base is no exception to this issue. As a consequence, the Germans have been shifting capacity towards Eastern Europe for more affordable hourly wages in the average production set-up. However, when it comes to overall competitive positioning, the question remains somewhat more complex: like how to blend brand image, product function and cost into an attractive offering for the relevant customer segment.

9 | When we look into the next letter in your puzzle: The "I" for innovation, what is new in here?

Much like cost-management has been a strategic weapon in the past; innovation-management will become a central battlefield of competitive advantage in the decade to come. I strongly believe that a brands future can only be sustainable, if it is trying to root itself into something it consistently does differently in its products. Just think of what Toyota did with "Green" and

 Mercedes with “Safety”. Similarly we see a general need for aligning a car-brand in a real mission of “innovating in technology”. Given that a whole re-invention of the car is just before us, chances for innovation-breakthroughs will become better than ever, but so are the risks and the cost that come down the same route. As attractive as electric vehicles and autonomous driving and such like might sound, commercially viable products are still too far away from filling our production lines. Even the popular but less considered idea of Apple buying Tesla would not deliver a lasting competitive edge per se.

We are not implying a naïve “spending for a technology fairytale” attitude. What we recommend is establishing a persistent and credible story to be told to any customer about the individual brands technology journey. In our view this is a very demanding, risky and long-term task, especially as in the view of many average consumers, the difference between mainstream-products are fading away in a “me-too” cloud. The consequence can only be to try even harder and to increase the effort of technical differentiation. Considering some of the current big bets made by the industry, of which the carbon-fiber-move by BMW is just a single example, most such technology trails are scary and extremely risky ventures. Still in our view they remain essential to the survival all players in the industry. This is, where craftsmanship turns into high art, when this technology trail becomes a centrepiece of how a brand expresses itself and where superior function is added through technology. One such frontier of technology differentiation can be found in the “D” from Digital, and the implications that come from building the bridge from horse-power to app-power. But there are many more forms of superior value positioning available.

10 | Which is also bridging to your “V”, like “Value enhancement”

 Exactly. But “V” does not stop with more function of the product for the money; it includes the whole network of services which allows happy owners to become happy users. This is especially true as, in the shift towards using, many of them will not buy anymore. It means bridging the gap between the dealers, the banks, the parking garages, the public and private transport and service providers. It is a paradigm shift. It will not happen overnight but it will be done in ten years’ time. By then our personal mobility will be organized by our virtual mobility butler, which accompanies us in a non-intrusive, assisting way through our mobility demand. Just as banks went from large marble palaces to online-accounts in ten years, the virtualization of mobility services is unstoppable.

11 | Listening to that I wonder if this does not hurt your last letter in DRIVE, the “E”, which you reserved for Emotionalization?

With Emotionalization I mean not only avoiding any kind of disappointment, failure or overreaching – it is the act of giving something a special emotional quality and a sense of belonging. Emotionalization needs to be felt in the products, the interaction with the dealerships, the brand positioning and all interaction with the social sphere of “tribe of the brand”. It connects the individual with the mobility service cloud, even more than Siri does for Apple, with more data and content. If the virtual travel butler is reliably making my life easier and if he also meaningfully learns about my habits and preferences, it will be more difficult to switch him than it will be to change the car it comes with.

**12 | Regarding Emotionalization: We have experienced some very negative emotions here in Korea in terms of passive treatments of recalls, indemnification issues and fuel efficiency exaggeration for instance, making some brands appear too focussed on their own interests. How have German Carmakers dealt with such situations in the past and present?**

Emotionalization gives a product or a relationship with a customer an emotional quality. Like in personal life, emotions and the corresponding expectations and fears bear the risk of disappointment and frustration. On the other hand only here you will be able to find a source of true happiness. In the car industry this implies becoming clear about the brands promises and the desire it evokes in a potential customer, and then managing those expectations over the lifetime accordingly. It is the fine balance between creating a tribe of happy owners that display their lifestyle with the product they use – and the risk of turning them into a demanding mob, who disrespectfully claim more than what they are really entitled to. The true secret to Emotionalization lies in listening honestly to the other side. What is the other party really saying? What did we really promise? Who is exaggerating here? What were the expectations? It is no secret that one of the biggest causes for relationship breakdowns are disappointed expectations.

13 | Dr. Wimmer, we have learned about your proposal to follow a DRIVE strategy. How can this be put in reality in any given carmaker or supplier?

First: Talk about it. Put time frames and comparisons on it. Try to understand, why the magnitude of changes and the time-compression is so enormous. Traditionally, our industry thought in car-cycles, coming from decades and shortening the planning horizon recently down to several years. As a result of the financial crisis, most players in the industry decided to stick with shortened planning horizons and still not reverted back to long-term scenario planning and trend scouting. Then identify how DRIVE will affect your business and the chances you have to improve your position in the race. Do not forget that the next 500 weeks will absolutely be decisive.

14 | As to the timeline, do you really think that OEM do not plan further than 10 years ahead? Furthermore, in your opinion, how many car makers will survive in such a highly competitive surrounding?

Planning is a word that is used for many activities, of which only a few really deal with preparation for the future. Most are simple prolongations of what we have today. By evolution, we are driven by a strong anxiety of losing what we already have, often ignoring gains that we could make – if we were brave enough. I am sure that many OEMs do have passionate visions and long-term plans, but putting them into a robust execution system, that turns beliefs into action is what makes all the difference. Looking back a decade: no one would have guessed that the near-death experience of the US auto-industry really would occur, but the numbers indicated it long time before it happened. Looking into the current picture of the industry, questions of a similar long-term relevance still exist: we call them **macro conditions**. They are about the robustness of the Chinese boom, the elasticity of our international monetary system, the implications of new power-trains and corresponding regulations, or the formation of different strategies with supplier networks and the like.

Those are big topics, and they overlay the DRIVE strategy. The only available bridge over this rough water is applying scenario techniques and preparing a chain of options that will likely improve our relative position other than worsening it. **DRIVE** and **macro** form two layers of muscle: keeping the overall entity in a stable shape and tearing down the status quo by re-inventing everything every day. In our view, the market will soon surpass 100 million vehicles sold

per year. That means that there is lot of place in the industry, but only for players that can handle. It's a game of musical chairs: no seat ever remains untaken.

Thank you very much for this interview, Dr. Wimmer.



Dr. Engelbert Wimmer – Managing Director, Partner & Co-Founder of POLARIXPARTNER.

ABOUT POLARIXPARTNER

MANAGEMENT. CONSULTANCY. IMPLEMENTATION. POLARIXPARTNER is the management consultancy for the manufacturing industry. As industry insiders with many years of experience, we guide you on your way to success, just as the North Star, Polaris, has offered generations of seafarers orientation. Our approach is holistic, our philosophy focussed on implementation: we analyse and strategically evaluate your core processes while remaining active on your shop floor to make sure that optimal improvements are implemented up and down your value creation chain. **THINKING AHEAD. OPTIMISING. INSPIRING.**

YOUR EXPERIENCED CONTACT AT POLARIXPARTNER

**Dr. Engelbert Wimmer – Managing Director and Partner**

- More than 15 years' experience as a consultant in the manufacturing industry – especially the car industry.
- Profound understanding of processes in product development and sales & distribution, globalisation of R&D, manufacturing footprint, organisational development and change management, as well as IT management.
- Published author, popular professional speaker

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