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AUTOMOTIVE

Transcript of Luxury Daily auto webinar: Expect more disruption as outlook challenges

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Lexus tops J. D. Power's most dependable. Image credit: Lexus

By STAFF REPORTS

Below is the transcript of the Luxury Daily *webinar June 12, 2019 on the luxury automotive business and the opportunities and challenges ahead, as well as examples of automakers who are getting it right and best-practice tips. Panelists were* David Undercoffler*, editor in chief, Autolist;* Tyson Jominy*, managing director of the Power Information Network (PIN), J.D. Power; and* Cliff Adams*, group planning director (Lexus), Team One.* Mickey Alam Khan*, editor in chief,* Luxury Daily*, moderated.*

What are the key disruptions bedeviling the luxury automotive business worldwide?

David Undercoffler, Autolist: Emissions, emissions, emissions.

Traditionally, luxury vehicles have been all about power: big V8, V10 and V12 engines that are solely focused on power and capability with little regard for what comes out of the tailpipes.

But now markets like China and Europe, and maybe, someday, the United States, have enacted strict emissions requirements.

This is pushing automakers to devote significant resources to redefining and get creative with how luxury vehicles are propelled.

Not just the proliferation of pure electric vehicles (EVs), hybrids and plug-in hybrids but also by introducing new technologies to the internal combustion engine (ICE) itself.

Brands like Bentley, McLaren and Porsche have all faced these challenges head-on and have seamlessly integrated cleaner vehicles into their forthcoming lineups without losing the essence of what has made each of those brands unique.

Tyson Jominy, J. D. Power: It's difficult to narrow down the discussion to key disruptions because there are so many

challenges in every direction: from emerging technologies that are soon to be ready for prime time, to new market entrants, to increasing and varying global emissions standards and even changing ownership models.

To simplify, we see several short/mid-term challenges and long-term challenges.

The key short/mid-term challenges in the next 5-7 years are the increasing global emissions standards, which have significant downstream ramifications, and changing consumer preferences for the types of vehicles that they buy.

Long-term, luxury massive technological breakthroughs may challenge if we drive and if we still own automobiles.

In the near-term, automakers will face increasingly more stringent emissions requirements every year, which is the right thing to do. No one should want to leave an environmental mess to our children and grandchildren.

However, these standards will not be easy to achieve.

The requirements increase in significant steps, which requires downsizing of engines, advanced powertrain technology and electrification of the lineup. Electrification does not necessarily mean electric vehicles. There will still be a market and a place for internal combustion engines, but nearly all luxury cars will have a type of battery assist.

Additionally, the industry is preparing for massive technological breakthroughs in cars that at some point in the future will enable autonomy.

Our forecasting partners at LMC Automotive have 2025 as the year that autonomy begins in earnest, but only in commercial fleets. These systems require massive computing power, highly detailed mapping and expensive hardware, so they will be cost prohibitive to most consumers for several years.

LMC indicates that 2030 is about the time that personal vehicles will begin to implement autonomy. And in this discussion, "autonomy" is not available from any automaker today, no matter what marketing gimmick it is called, as autonomy is giving full control to the vehicle's software.

A day is coming soon when a vehicle can do the commuting for you Monday through Friday but then allow you to drive yourself to the mountains on the weekends and enjoy the trip. It's still over a decade away, but many are preparing for the eventuality now.

Then there's the long-term challenge to car ownership.

Many analysts and futurists believe that the car ownership model will be dead. Our opinion is that luxury ownership will continue and, in fact, may become the distinguishing feature of luxury automobiles.

Luxury is something that you want to own, not share. Those with the means also don't want to wait for delivery. Time is also our most precious non-renewable resource and having the ability to take a vehicle when and where you want it is the truest luxury.

It's the same way that commercial flying exists, yet private planes offer the immediacy and control to get where you want, when you want.

In the future, true luxury may mean private ownership.

Cliff Adams, Team One: The biggest industry disruptors are well-known to even casual observers of the industry: electrification, autonomous technology and shared mobility solutions.

Even the largest original equipment manufacturers (OEMs) are adapting to these new realities in various ways. However, each of these disruptors is being exacerbated by additional forces that are adding uncertainty to the market.

- *Electrification:* The Trump administration's rollback of vehicle emissions standards has added incredible uncertainty to the regulatory future of the industry. Just last week, 17 car manufacturers including Toyota, Volkswagen, General Motors, Ford and Hyundai/Kia sent President Trump a letter asking him to reconsider dismantling emission and efficiency standards set by the Obama administration. This tug-of-war, along with talk of tariffs, is injecting significant uncertainty into the industry's long-term planning for investment in electrification.
- *Autonomous technology:* Fully autonomous driving is still years away from being a reality for most Americans. Despite this widely-acknowledged reality, Elon Musk has contended that Tesla is set to achieve that milestone

in 2020. You'd be hard-pressed to find an industry analyst who finds this claim realistic, which could lead to a further erosion of the company's credibility.

- *Shared mobility:* Regulation will continue to shake out in new ways for different models of mobility. May's strike of Uber drivers introduced the possibility of collective labor action, and many cities and states are still in the process of deciding how to regulate ride-sharing services. Throw in the companies offering electric scooter rental and even electric pogo sticks, and you've got a whole lot of change happening all at once.

How are automakers responding via business initiatives, product development, design, marketing and new global markets?

David Undercoffler, Autolist: By doing what automakers are best at: innovating. What's cool about this phase if you're a car person is the amount of technological innovations being spurred by these emission requirements.

We're seeing automakers pushing the adaptation of plug-in hybrids, pure EVs and ultra-efficient internal combustion engines, develop new ways of recapturing, storing and deploying energy in vehicles and use new construction methods and materials to cut weight drastically.

There's not a luxury brand around that hasn't implemented at least a few of these but the standouts include Bentley, Porsche and Audi all of which are VW Group as well as BMW, Mercedes, Jaguar Land Rover and Tesla with impressive promises by Aston Martin and McLaren.

Tyson Jominy: For the short-term concerns, automakers have significant challenges to achieve the emissions standards, and new powertrain technology is prohibitively expensive.

The first steps are downsizing engines. The days of V12s in sedans are nearly over and will never return. Even the V8 engine is essentially on its last breath in all applications except sports cars.

Since the challenges are so large and payoffs uncertain, automakers are partnering with each other. This is not just boutique firms like Aston Martin purchasing its sports cars powertrains from Mercedes, but BMW and Mercedes actually partnering together to develop technologies.

Replacing old-school large engines are small engines, often 4-cylinder, with turbo charging, direct injection fuel delivery and hybrid batteries providing additional propulsion at other wheels.

The other aspect is that large costs require large volumes to offset. Try as they might to avoid it, that means offering an SUV because the volumes are no longer there on sedans. For one, consumers demand the attributes that SUVs afford, and retailer networks need volume products to sell to survive.

Even the boutique automakers realize that to continue selling sports cars, SUVs must be sold for needed volume.

There are still a small number of holdouts who declare that they will never use hybrid technology or will never offer an SUV, to which I say good luck holding onto that in the next seven years.

The challenge is always that increasing volume threatens the exclusivity of the brand. Here I think we see automakers splitting the market into smaller subsets with body styles.

The fastback SUV body style is one place where an automaker can make a more exclusive offering than a big tent SUV that features more interior space.

As automakers like Lamborghini are offering their first SUVs, they aren't doing so with large SUVs. In many cases, the highest offerings in a lineup are far less practical than other models in the range.

The Audi Q8 is based on the Q7, yet offers less interior space and packaging while selling for significantly higher. Likewise the upcoming Cayenne Coupe and many other high-end models. This fastback body style adds back some of the exclusivity lost to increasing volume.

Cliff Adams, Team One: Growth in mobility services, among other factors, has led to a renewed focus on fleet sales as a source of future revenue.

Whether it's meal delivery or ride hailing, the number of miles being driven on America's roads is increasing even in the face of stagnant private ownership.

New services will be popping up in the next decade that will require vehicle fleets, and OEMs are anticipating this change.

Toyota's e-Palette concept vehicle is one example of how this shift could lead to totally different types of vehicles in the future.

Increasing urbanization is causing automakers to create more vehicles designed specifically for city living. Ironically, this trend is coinciding with a voracious appetite for SUVs among American consumers. This has made the compact crossover SUV segment among the fastest-growing in the industry, with new vehicles like the Lexus UX and Volvo XC40 joining early entrants like the BMW X1.

Many automakers are placing renewed emphasis on the software in their vehicles, as infotainment systems continue to become more complex and essential to the in-cabin experience.

For example, Hyundai's next-gen infotainment system promises to sync calendars and tasks from multiple mobile devices, allowing a family to use their vehicle as a scheduling hub. Additionally, automakers across the board are scrambling to add AI features to their vehicles.

Examples of automakers that understand the current consumer mindset and attitude toward auto ownership

David Undercoffler, Autolist: Nearly all of the mainstream luxury brands, including Audi, Mercedes, Porsche and BMW, are playing around with the subscription type of ownership model.

In select pilot cities which vary depending on the brand these automakers are offering multiple tiers of vehicles for a single monthly fee that's almost always higher than a standard lease or car loan payment would be.

While the industry is in the early days of figuring out how to offer these subscriptions profitably, it's an acknowledgment that high-end car shoppers see flexibility as a luxury they're willing to pay for.

Tyson Jominy, J. D. Power: In the under $100,000 range, Audi is an automaker that offers the style, features and options that are extremely appealing.

Audi today sells in large volumes as the #4 luxury OEM in the United States, but it hasn't always been that way.

As a result, you don't see as many on the road as its top competitors, which lends itself to an air of exclusivity. Likewise, it also doesn't carry a lot of baggage about what an Audi owner is and how they drive or how they park. No one says "oh that's a *typical* Audi owner driving 90mph in the left lane" or "look at that Audi owner parking across two spots". Yet the brand has all the status and features.

In the previous generation Q5 alone, the vehicle offered five distinct powertrains: a turbo 4-cylinder, a 6-cylinder, a high performance 6-cylinder, a diesel and a hybrid.

Audi offers a full range of models from sedans to sports cars, SUVs, even a wagon. Plus, interior quality and materials is a benchmark for every automaker.

In the $100,000-$200,000 range, I would point out Porsche for its focus on its brand and customers. It is an automaker truly dialed in to what consumers want and may not get enough credit for being truly visionary and forward-looking in its product planning.

Porsche continues to offer a manual transmission in the 911 lineup to appeal to its enthusiast owner base, even on the high-end GT models, which are flying off lots. The Turbo franchise continues to be one of the most exclusive sub-brands in the industry and even its performance-oriented GTS models keep all its lineup planted firmly in the enthusiast camp, remaining true to its heritage.

However, given that Porsche is kind of an obvious choice here, I want to recast how visionary the company has been and continues to be.

First with the Cayenne, which was a huge risk. When introduced in 2002, most enthusiasts, myself included, could not see how a sports car maker could offer an SUV and remain true to its heritage.

While this bet didn't look great in the industry's dark years of 2007-09 when fuel prices and the economy moved against it, in 2019, no one would anyone suggest it was bad.

Fast forward and now Porsche is going to be one of the first to offer a true luxury EV in the Taycan. Granted it has access to the VW Group's powertrain stable, but for Porsche to once again bet the farm on something that only a few years ago would have made enthusiasts apoplectic shows that it is willing to risk it knows what consumers want before even they do.

Finally, above $200,000, I would pick Aston Martin. Its CEO, Andy Palmer, is one of the industry's best leaders and knows what makes an ultra-premium marque special: exclusivity and immersion. He is increasing volumes at Aston Martin, but not to the point that they will become ubiquitous. He has launched powertrain-sharing agreements with Mercedes to drive down costs, he has taken the brand racing again in F1, and is introducing the brand's first SUV, the DBX, this year.

Aston Martin's models are sexy as hell, but as a brand it doesn't include the baggage or expectations of its closest competitors. Its cars scream performance and money, will get your vehicle kept close by valets, but you aren't going to see many.

Do Aston Martin owners wave at a each other when the drive past? You may not often get the chance to find out.

Cliff Adams, Team One: Volvo and Lexus both recently introduced a new way to own their new compact crossovers: the XC40 and UX, respectively.

Both brands introduced a service that bundles your car payment, insurance and maintenance into one payment a car you subscribe to instead of own. The programs are aimed at younger buyers used to subscription services like Netflix and Blue Apron.

Clutch Technologies has developed an off-the-shelf solution for OEMs and other businesses looking to offer subscription programs that allow consumers to swap out vehicles from a fleet of cars.

Clutch has partnered with brands like BMW, Mercedes-Benz and Porsche, along with several dealer groups, to offer affluent consumers the ability to drive a sedan during the week and an SUV on the weekends.

Tesla's model of direct-to-consumer commerce, while it faces numerous challenges in execution, has captured an enormous amount of initial interest. Their fans are so passionate that they volunteer to help the company with tutorials for new owners. It remains to be seen how they'll work out the problems, but the passion is there.

Best-practice tips on how automakers can continue to retain and expand market share

David Undercoffler, Autolist: Be responsive to customers.

This may seem obvious for many consumer goods but considering the technical sophistication of cars, it's a much more difficult task to make changes to a product quickly.

Porsche is a great example of responding quickly to consumer demand to the benefit of everyone.

The carmaker used the highly profitable and sought-after 911R and the 911 GT3 Touring to atone for building the initial GT3 of this generation without a manual transmission.

Tyson Jominy, J. D. Power: The key to the future will be partnership, flexibility and deep pockets.

At the rate the premium space is changing, no automaker should declare that they will never launch a particular body type or adopt a particular powertrain technology.

Luxury automakers will need to be visionary and see where things are going years in advance.

Since so many changes in the future will be around technology, luxury cars and SUVs will be where most are implemented first.

And if a big bet goes awry, it helps to have deep-pocketed investors behind you because the future is very uncertain.

Cliff Adams, Team One: *Be ready to capitalize on new revenue streams.* According to McKinsey, potential revenue in the automotive industry could increase by up to 30 percent with the addition of things like on-demand mobility and connectivity services.

Be on the lookout for opportunities outside your traditional business model, and be prepared to act quickly when you identify them.

Look for new ways to partner with competitors. In the face of uncertainty, companies are going to look to find new ways to minimize their risk. For many, this will mean unique partnerships with competitors in the service of mutually beneficial solutions, whether on a new technology or a unique manufacturing venture.

Earlier this year, rivals BMW and Daimler agreed to partner on car-sharing and ride-hailing services, as well as some autonomous technology.

Expect a major move by an unexpected player. It's only a matter of time before a company like Amazon or Google decides that the disruption in the auto industry is too big an opportunity to pass up. This could take many forms, from acquiring an existing company like Tesla, to working with state and local governments to develop a unified autonomous infrastructure.