

## Opportunities in crisis

Audi CFO Axel Strotbek met with Max Otte, the economist who predicted the global crash back in 2006 and who now hopes for clear and better regulations on global economic activities. Something everyone would profit from.

**Interview** Olaf Wittrock  
**Photo** Dieter Mayr

**W**e are engulfed in a financial crisis and are bombarded daily with alarming reports about how bad things could still get. So it's high time to call on the experts for an assessment of the situation. Professor Max Otte saw the collapse coming. When you wrote "The crash is coming" two years ago, what were the warning signs?

**Max Otte:** Well, my basic observation was that a nation's economy, just like a business, becomes overleveraged if it takes on too much debt. And we had reached a point where total U.S. debt was almost 400 percent of its gross domestic product. Such a house of cards is eventually going to come tumbling down. If the financial sector gets to be too big, the real economy can no longer sustain it.

**For many years, the drastic expansion of the global economy and the resulting rise in demand cushioned the growing amount of debt. So what prompted the bubble to burst?**

**Otte:** I would dispute the claim that there was ever a strong growth in demand. It is often said that U.S. consumers are the driving force of global capitalism. The U.S. economy absorbed a great many surpluses; after all, in recent times it has been soaking up two-thirds of global savings. There was such an accumulation of debt-financed

potential hazards that it was ultimately impossible to say what really prompted the collapse. But the behavior of central banks certainly played a part. By flooding the markets with cheap money, they ultimately left us with no risk premium to help us differentiate between risky and less risky credit. Once the first risky loans fall due or turn toxic, there is no way to stop it.

**Mr. Strotbek, as AUDI AG's CFO, have you ever experienced a particular moment where you thought: We're about to be hit by a crisis?**

**Axel Strotbek:** Well, Europe had long been suspicious and critical of the United States' over-indebtedness and access to cheap money. But there's no doubt most of us here were taken aback by the severity and speed of the crash. I think we're a long way away from having fully digested the situation – in fact, we're only just beginning to do so. There is still a lack of transparency and perception of how the rules of the game have changed.

**When you consider that many companies are looking a lot shakier than the Audi Group, might you even be one of the winners of this crisis?**

**Strotbek:** Thanks to our youthful, attractive model range, we succeeded in posting outstanding results in 2008. But we have always tried to stress that we don't exist in some island paradise. And with the overall markets slumping in some cases by more than 25 percent, we are bound to be drawn ▶



Summit talks: Axel Strotbek (left) and Max Otte believe entrepreneurial action is the way out of the crisis.

in as well. 2009 is going to be an extremely hard year, but I'm very confident that, thanks to our efficient, emotion-packed vehicles and modern engines, we'll fare much better than markets as a whole. And we will keep up our product initiative.

**Mr. Otte, are there ever winners in such crises? It feels more like everything is going downhill.**

**Otte:** Of course every crisis has its winners and losers. Because whenever there is a downturn in economic activity as a whole and things are allowed to follow their normal course, the strongest companies in the industry automatically come out the winners. They don't have to focus as much on prices and are equipped for the long haul. The exact opposite is true for weaker companies, who fare particularly badly during a crisis.

**But it also sounded as though some companies might not be able to pull through the crisis on their own. That's when people are quick to call on the state to intervene. Is that attitude healthy or rather more dangerous, Mr. Strotbek?**

**Strotbek:** In principle, I prefer the idea of self-regulating, self-healing markets. For instance, our company does not need any subsidies or bailouts. As in the past, we will be able to finance our capital investment ourselves. But in a global industry, it's always important to monitor global competitive trends and respond if we see any signs of unfair competition. Regional subsidies in other manufacturing countries could adversely affect our competitiveness, and thus have an indirect impact on employment in Europe. So imposing conditions on injections of capital into the European auto industry – e.g. to fund future technologies – undoubtedly makes sense and may even be essential.

**The German car manufacturers' banks have just tried to obtain such state aid. Is that part of such an emergency plan?**

**Strotbek:** The financial crisis has led to a complete breakdown of trust between banks. That trust now needs to be restored through support measures made available for a limited period. We're not asking for any kind of equity injection or state funding; we merely want individual guarantees so that we can resume refinancing under sensible conditions. In the end, our customers benefit because we will be able to offer attractive terms based on competitive leasing and financial arrangements, which in turn will boost demand and, ultimately, the economy as a whole.

**Otte:** I think that is also part of the emergency plan.

**“I think we'll see a return to the old principles of the reputable merchant who assesses his risks realistically and doesn't get involved in things he doesn't understand.”**

**Prof. Max Otte, economist**

Though, of course, the car industry is not entirely blameless for the orgies of debt we have seen in the United States in recent years, complete with price wars, zero interest loans and so on. It makes me wonder whether it wouldn't be better to introduce sensible legislative controls to ensure that loans are granted under fair conditions, rather than as a hidden discount. It would be wonderful if the state could emerge from this crisis with greater authority – as a referee who ensures that the regulations are actually complied with.

**The three big U.S. carmakers are facing enormous difficulties and the public's perception is that this had a lot to do with the financial crisis. But isn't there actually a different cause of these structural problems in the car sector?**

**Strotbek:** I believe the structural challenge that the car industry is facing is an entirely separate issue to what is currently happening. The question of how structures need to be changed in the medium and long term should be considered independently of the present upheaval. As to the United States, it is a very distinct market that applies different standards of viability and competitiveness. Ever since the early 1990s, its domestic industry has been under attack by foreign manufacturers, e.g. from Japan, who entered the market with locally built products. So the fundamental weakness of certain major carmakers has been evident for many years, if not decades, in the form of dwindling market shares.

**To what extent is the current crisis affecting Audi's business in the United States?**

**Strotbek:** A direct consequence of economic uncertainty is restraint among buyers; overall demand has dropped by almost 20 percent and nobody knows how much further it is going to fall. On the other hand, we have a growing product range and new technologies that offer us enormous potential to develop in the medium term. So even though part of me deeply regrets what is happening on the U.S. market, I also see how it is creating opportunities for the Audi brand in the years ahead.

## MOVING DISCUSSION

A video clip of the interview can be found at:

[www.audi.com/ar2008/foresight](http://www.audi.com/ar2008/foresight)

**But, all in all, the industry is in the throes of radical transformation.**

**Otte:** Absolutely. The automotive industry encapsulates all the problems and opportunities that are part and parcel of modern business life. On the one hand, it is a mature industry making an indisputable bulk commodity that dominates our economic life, but with little room for market growth because, at some point, people simply don't have space for yet another car in their garage. On the other hand, it has a long way to go in terms of sustainability: Energy efficiency and this very idea of sustainability are the two major growth areas that will give fresh impetus even to this mature industry.

**“2009 is going to be an extremely hard year, but I'm very confident that, thanks to our youthful model range, we'll fare much better than markets as a whole.”**

**Axel Strotbek, Member of the Board of Management for Finance and Organization, AUDI AG**

**Although sustainability has been strongly overshadowed by the financial crisis in recent months, it has actually been the industry's defining issue with regard to its structure. To what extent can energy efficiency provide a solution to the current situation, Mr. Strotbek?**

**Strotbek:** I think it offers huge opportunities because the ideas we currently have in the pipeline focus very specifically on the type of structural change Professor Otte has just described. It is one of our greatest strengths that we have continued to invest and step up the pace in this area – ensuring that tomorrow and in the future we will continue to bring products to market that convince through “Vorsprung durch Technik.”

**So does that put you in the role of hunter or hunted? The impression in recent years has often been that European manufacturers as a whole have not exactly been taking the leading role.**

**Strotbek:** Speaking for Audi, I think it is fair to say that after a 13th successive record-breaking year, our brand is in the “hunted” role. But there's no such thing as a free lunch, and the challenge we now face is using convincing technologies to build on this position. The question we are currently addressing is therefore where to place our priorities, and where to rein in capital investment and costs. I am very

confident that we will find the right answers and pull through the crisis with future-proof products and technologies.

**Can investing actively and being highly entrepreneurial during the current crisis have a particularly positive effect, Mr. Otte?**

**Otte:** It has to! Entrepreneurial activity is of fundamental importance to the economy's development. In mature industries, in particular, you often find that one company copies another; in other words, if one player does something, the others follow suit. And this can hamper innovative solutions. However, when Mr. Strotbek talks about having to choose between cutting costs and investing when setting priorities, he is referring to key business decisions. You simply can't do everything all at once, otherwise you just get bogged down. That's why a company can provide impetus by establishing a trend in a particular direction. When I take a look at the Audi Group's 10-year figures and see a doubling of vehicle sales along with over 60 percent growth for the core brand, then I can see it has succeeded in doing this. And, of course, that also creates very ambitious targets for the future.

**Mr. Otte, you saw the crash coming – are you also able to predict when we will come out the other side?**

**Otte:** It would be nice if I could. But it is easier to recognize that a bridge is going to collapse under an excessive load than to know when reconstruction will be finished. I think we are going to experience a sharp recession first. I can't yet exclude the possibility of a really bad ending, but I hope that the danger has been averted thanks to the rescue measures that governments have taken. Amid the crisis, I must say I am very pleased with the way politicians have responded to the need for firefighting measures. This certainly couldn't be taken for granted. We will have to wait and see whether better regulation will now follow.

**So ultimately, you hope we will learn from our mistakes?**

**Otte:** Of course. I think we'll see a return to the old principles of the reputable merchant who assesses his risks realistically and doesn't get involved in things he doesn't understand. If we manage to lay down some simple, clear rules for the banks and are generally able to behave more responsibly, we'll have moved forward. ●

**The business journalist Olaf Wittrock works for Frankfurter Allgemeine Zeitung, Financial Times Deutschland and Handelsblatt, among others.**