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Short History, Long View

By [MARK LANDLER](#)

INGOLSTADT, Germany, Feb. 26 — Visitors to the Audi automobile museum here could be forgiven for puzzling over the first few exhibits in this striking circular glass building. There are splendid antique motor cars with names like Horch, Wanderer and DKW, but no Audis.

Only on later cars does the Audi name show up: affixed to their grilles, as if an afterthought.

In the aristocratic world of German automobiles, Audi is something of a parvenu. While Mercedes-Benz and BMW have long histories and legendary brand names, Audi was cobbled together in the 1930s from three German automakers under the bland label Auto Union.

But heritage is not all it is cracked up to be. While Mercedes has struggled to hold on to its gilded status in recent years, Audi has been on a tear, becoming Germany's, and the world's, fastest-growing maker of luxury cars.

"We have a very short history, so we talk a lot more about the future," said Rupert Stadler, 43, who became one of the youngest chief executives of a major German company when he took the Audi helm in January.

Mr. Stadler, whose salt-and-pepper hair belies his age, makes an audacious prediction: by 2015, he declares, Audi will be the leader in luxury cars in the world. He is quick to note that this does not mean selling the most cars each year, but setting the industry pace in technological innovation, brand image and customer satisfaction.

"Audi today is not what it was 10 years ago," Mr. Stadler said in an interview in this Bavarian town. "We are more ambitious; we have a different product portfolio; and we want to play in a different league."

In Europe, Audi still trails the perennial luxury leaders, BMW and Mercedes of DaimlerChrysler, but it is narrowing the gap. It remains far ahead of Lexus, Toyota's luxury division, which has only been selling here for a few years, but has enjoyed a recent growth spurt.

In the United States, though, Audi has to compete not only with its larger German rivals, but with Lexus, which has led the market this decade with a peerless reputation for service and reliability. And the newest version of its LS sedan, the LS 460, is meant to answer criticisms that Lexus has an undistinguished appearance.

"We still have a tough job in the United States," Mr. Stadler said. "It will take several more years." His goal, he said, is to sell 200,000 vehicles a year, up from 90,116 last year (Lexus sold 322,000).

Still, Audi is making inroads with sharper-looking cars and its tradition of innovation in four-wheel drive, or quattro technology, which has made it an increasingly popular car in snowy parts of the country, like the Northeast and the upper Midwest.

Tony Catalano, a salesman at an Audi dealership in Danbury, Conn., said Audi used to overlap with brands like Acura of Japan. Now, he said, Audi is attracting people who would otherwise buy a BMW.

"Our cars are the safest on the road," Mr. Catalano said. "You can feel our all-wheel drive hug the road."

Audi's ambitions are on display most viscerally in the R8, a 480-horsepower two-seat sports car it introduced last fall. Professional drivers say the R8 goes wheel-to-wheel with the [Porsche 911](#) Carrera, which is nice, because with a price tag of 105,000 euros, or nearly \$139,000, it is more expensive than a Carrera.

With rarefied cars like that, it is easy to forget that Audi is owned by Volkswagen, the quintessential mass-market automaker. But unlike DaimlerChrysler, which has proved to be an unhappy marriage of mass and class — so unhappy that Daimler is now trying to unload Chrysler — Volkswagen and Audi have had a durable and mutually beneficial relationship.

"There are two examples that prove you can successfully combine premium and volume carmakers: Toyota with Lexus, and Volkswagen with Audi," said Ferdinand Dudenhöffer, the director of the Center for Automotive Research in Gelsenkirchen.

Audi is not only the star of the Volkswagen family, which also includes Bentley, but it is the best performer in the premium category. In 2006, its unit sales grew 9.5 percent, to 905,188 vehicles, the 11th consecutive year of record results. Sales of Mercedes grew 6.5 percent, to 1.14 million, while BMW's sales rose 5.2 percent, to 1.18 million.

Audi aims to break the million-car barrier in 2008, with new models that appeal to drivers in the under-\$100,000 range, including a trimmer version of its Q7 sport utility vehicle, the Q5, and a two-door coupe, the A5, which it plans to introduce next week at the Geneva Motor Show.

The A5, which will start at 33,000 euros in Europe — United States prices have not been set yet — aims at the Mercedes CLK coupe and the [BMW 3 Series](#). Audi was chagrined when unauthorized photos of the car found their way on to the Internet two weeks ago; the buzz about its low-slung, flowing design has been mixed.

Analysts, though, are generally sanguine about Audi's prospects. It has marched up the rankings for quality and service. With its new models, and future projects like a small car to rival BMW's Mini, Audi will soon compete against BMW and Mercedes across the board.

"Among all the luxury brands, Audi has the best chance of getting into the top tier," said George Peterson, the president of AutoPacific, a market research firm in Tustin, Calif.

Getting all the way to No. 1, however, will be a stretch. In the United States, its second-largest market, Audi is still battling the memory, though dim, of the mid-1980s when drivers reported that their Audi 5000's sometimes accelerated without warning, with nasty consequences for anyone in their path.

Audi said the drivers had confused the brake and accelerator pedals — a finding backed up by a government report. But Audi's sales were decimated, and its image took two decades to recover.

Audi also has to square its turbocharged ambitions with mounting concerns about fuel prices and carbon-dioxide emissions. Analysts say Audi missed the market in the United States by introducing a large sport utility vehicle, the Q7, at a time when S.U.V.'s were falling out of favor (although the Q7, it must be said, has surpassed overall expectations due to torrid sales in Europe and Asia).

The [European Union](#) is weighing whether to impose reductions on the carbon emissions of cars, and at the levels under consideration, Audi has only a single model, the A3, that would squeeze under them.

As with other German auto executives, Mr. Stadler said an across-the-board cut in emissions would badly hurt the industry, depriving consumers of the technology gains that come from high-performance cars like the R8. It would also, he said, rob the industry of much of its romance.

Audi has done its part for the environment by developing cleaner diesel engines, Mr. Stadler said. "What we should not sacrifice is emotion for our industry, the sex appeal of our industry," he said.

Its other main innovation, which it calls quattro technology, is a prime selling point. At the [World Economic Forum](#) conference in Davos, Switzerland, Audi promoted its reputation as a car for treacherous weather by offering a half-day safe-driving course on a field of ice.

As a respite from solving the world's problems, the chief executives and other V.I.P.'s could careen around the track in an [Audi A8](#), the carmaker's top-end sedan. Though it seems like a game of bumper cars for grown-ups, the course has become a staple for the Davos set.

On a wintry afternoon at this year's conference, the chief executive of a major American consumer-goods company confided that he drives only A8's at home. Then he got into the one provided by Audi, spun it around in dizzying circles, and climbed out with a look of sheer delight.

Audi's challenge, Mr. Peterson said, is to create that excitement with all of its cars. "People say Audis are stealth cars. They're not head turners," he said. "The R8 will go a long way toward changing that image."

The R8 was designed by Walter Maria de'Silva, who recently left Audi to take over design for all of Volkswagen. Mr. de'Silva is one of several executives who moved to the parent company in a shuffle that began when Audi's well-regarded chief executive, Martin Winterkorn, was named to succeed Volkswagen's ousted boss, Bernd Pischetsrieder, last fall.

The loss of Mr. Winterkorn, Mr. de'Silva and others does constitute a brain drain, Mr. Stadler said, though he said that Audi quickly filled the vacancies. As chief designer, it hired Wolfgang Egger, who, like Mr. de'Silva, came from the Italian carmaker Alfa Romeo.

"We're not facing a heart attack or breakdown," said Mr. Stadler, who had been the chief of finance. "I like to have friends and colleagues at Volkswagen, because it is so much easier."

Audi's ties to Volkswagen are evident in a tour of its assembly plant here. Boxes with parts, stamped with the VW logo, are everywhere. Robert Humig, the manager of assembly for the A3, said the car shared 40 percent of its parts with Volkswagen, as well as a common platform.

Audi's success, Mr. Stadler said, has been to carve out a distinctive identity, while saving money by sharing parts, particularly in areas that are not visible to the driver, like electrical systems.

"The important thing is that your customer feels Audi, feels Volkswagen, or whatever," he said. "But the chips behind that: who cares? They're from Intel."

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