

Bayersiche motoren werke ag

[Business](#), [Marketing](#)



From its inception in 1916 and through the 1970's to the mid 1980's, BMW was one of the fastest growing companies in Germany. Demonstrating profitable growth over their last thirty years, BMW experienced " 17% compound annual sales growth from 1970 to 1991". 1 BMW was an independent automobile company selling in over 100 countries establishing itself as a global competitor in the category of luxury/performance vehicles. Although a relatively small global player, BMW cultivated a niche market selling 553, 000 units worldwide in 1991, representing 1. 7% of the world output of automobiles. Although BMW sustained growth worldwide, their market share in the United States was weakening. In 1986 BMW held 6. 8% of the US market share but by 1991 unit sales had decreased from its peak of 96, 000 units to an all time low of 53, 000. (BMW's history is shown diagrammatically in Appendix 6 of this paper.)

Karl Grelinger, president of BMW North America, had a track record for success and was renowned as a 'master marketer'. His mission in 1992 was to keep BMW out of the 40, 000 unit per year niche car market and establish BMW as a 100, 000 unit per year auto manufacturing leader. The United States was a key market for BMW and as Heinz van Deelen, director of Marketing Planning for BMW in Munich, put it: "[BMW] must have a market position in Japan, the United States, and Europe. If [we] lose one of these markets, [we] will eventually lose all three." An integrated strategy to reposition and strengthen the BMW brand in the United States was formed, but would it be enough for BMW to gain back valuable market share in the 'most competitive automobile market in the world' and more importantly rejuvenate the brand image?

Identification of Action Items

In 1974 BMW entered the US market and established a unique brand position as the performance luxury auto maker. At the time there were muscle cars and luxury cars, but BMW was able to combine the two and create an image that was captured by their advertised slogan: "The Ultimate Driving Machine". The BMW brand was associated with wealth and prestige, a must have for every 'Americanized yuppie'. The image faded over time with changes in consumer tastes, new competitive entrants from Japan and negative changes in the US stock market and tax environment. The BMW brand became viewed as excessively over priced and was losing its appeal in the American market.

Grelinger's challenge in reaching the new 100,000 units sales threshold per year in the US was two-fold: first, to transition from the downward sales trend of the late eighties to a positive sales trend over the next five years; and second, to reposition the BMW brand to a 'better, more socially responsible driver's brand'. To achieve this transition BMW would need to address the changing economic environment, and more importantly, the changing values of its target consumers. The BMW consumer was no longer seeking a 'status' acquisition, the American BMW consumer was now seeking value combined with an empowering experience. Grelinger knew that in order to become a leader in this segment, the consumer experience was the key driver in the future growth of BMW's sales.

BMW's Integrative Strategy

The new corporate 'drive' therefore had to evolve from a 'prestigious focus' (as was the focus of their 15 year long " The Ultimate Driving Machine" campaign) to a more value-oriented and customer driven focus (as with their new " BMW - The Smart Choice" campaign). Traditional ads with polo players and yachts had become tools used against BMW, since they suggested over priced excess. Although BMW's new buyer was amongst the youngest and wealthiest of the luxury car market, the experience they desired differed from the BMW consumers of the past decade.

An integrative three part strategy was devised and implemented (by Grelinger) in the early 1990's to address the diminishing market share and BMW's brand ambiguity with relative success. The strategy addressed brand and product enhancement (through the development and introduction of six exciting new models), franchise improvements (through dealer network improvements), and organizational changes which encompassed the broad category of 'people' (through internal policies, manuals and some structural changes), however, a key component was still being overlooked: The consumer experience.

Key Problems

Grelinger understood the need to create exciting new models while managing the BMW brand and has strengthened the BMW brand and it's perception in the market place through his new integrated strategy; however, to fully manage the BMW brand, the key will be to understand and then to enhance the consumer experience. This will lead the BMW brand into

the future maximizing not only their US market presence, but ultimately their global reach as well. Key problems include:

1. Not knowing their customer. BMW needs to have a good sense of who their customer is and understand fully the experience they have when purchasing one of their cars.
2. The consumer experience begins with the dealer and first impressions are vital.
 - a. BMW Dealer presence in the US was not solely focussed on BMW sales in comparison to competitors. Of the 375 dealers, only 106 sold BMW exclusively.
 - b. The correct brand image and brand perception is not being presented on the dealer front. The brand is not being represented exclusively; and the sites are still not 'uniform' in appearance or in policy.

Organizational Analysis

The past strength of the 'BMW brand' would become a key advantage to the future success of BMW in the United States. BMW created its 'first great opportunity' with the creation of the luxury /performance car segment in the US which helped to establish the BMW brand as a 'status symbol' for 'yuppies'. The brand portfolio provided sub-brand models for consumers with varying income levels with lower cost models appealing to the 'up and comers' and higher cost models appealing to the 'arrived'. The BMW brand

soon became associated with high quality and performance with innovative design qualities and a European flair.

The biggest weakness for BMW in the US market was the lack of representation on the dealer front. BMW had an exciting product line with a unique brand image but only had 106 out of 375 dealers selling the BMW brand exclusively. Many of the remaining dealerships were partnerships selling lower proportions of the BMW brand relative to their competitive counterparts. As a result, the image of the BMW dealership directly contradicted the brand image of high quality which substantially affected the consumers overall image of BMW. Furthermore, dealer relationships were strained negatively impacting BMW's image and contributing to the erosion of BMW's valuable market share.

Executive Analysis

BMW had earned awards for several of their models placing in top 10 lists in 1992 and was about to outsell Mercedes-Benz. However, sales in the United States market continued to decline due to a combination of economic, environmental, and competitive factors. Americans were buying fewer automobiles; in fact automobile sales had dropped 24% in the same time frame. The 1987 Tax Reform Act took away tax incentives for luxury car buyers, and the October 1987 stock market crash forced consumers to buy less expensive and more conservative vehicles. BMW's luxury/performance segment of the market was further hit by a luxury tax for expensive vehicles coupled with the doubling of the gas guzzler tax, which was intended to encourage the purchase of cheaper more fuel efficient cars.

During this period over twenty new competitors entered the market dramatically changing the luxury/performance segment forever. Toyota, Honda and Nissan were respected as high quality auto manufacturers well known for their reliability and quality service. Each introduced new brands in the 1980's: Acura in 1986, Lexus in 1989 and Infiniti in 1989. With consumer preferences changing to a value orientation, these brands offered a higher level of perceived quality and consumers already considered them to be the best value. These new Japanese luxury brand introductions also had a competitive advantage through their established dealerships and customer care programs.

They also offered sleek new designs that were less expensive with more gadgetry and perceived value. The Japanese manufacturers were providing luxury performance vehicles of high quality, technical convenience and at accessible pricing. In comparison, the American manufacturers of luxury cars were marketing based on the reputation of the Cadillac and Lincoln brands, but they were outdated and of lower quality. The Europeans were not much better, and tried to market their cars as status symbols. The Japanese used this strategy to their advantage by suggesting the Benz's and BMW's were overpriced. BMW was at a disadvantage with their more expensive models which were categorized as 'yuppie' vehicles. Pricing of the entry level 3-series often put existing owners out of the market. Many of the 'yuppies' who owned the older but popular BMW 2002, at less than \$20, 000, could not afford a 3-series that now averaged \$29, 000.

Furthermore, Consumer Reports described the Japanese luxury buyer as, "smart, in the know, [and] value oriented". To add insult to injury, the 1992 J. D. Power Customer Satisfaction survey put BMW well below leading competitors Infiniti and Lexus, and even below Buick and Cadillac. This was a hard image to beat especially when Lexus was spending twice the advertising budget as BMW.

BMW had enjoyed a successful 15 year introduction into the US market. Their "Ultimate Driving Machine" was part of the brand image and retained strong consumer recognition. Traditional luxury buyers were looking for cars their dads wanted to drive. These were usually big, spacious and slow. Although BMW had established a new performance luxury market segment, their products were no longer fascinating consumers. The 320i and 525 models were expensive and underpowered. The fad lists stated "What's in: Lexus, What's out: BMW".

Gerlinger realized that the Japanese had taken the BMW concept and added reliability and customer service. This created meaningful value for consumers, even with higher prices. BMW took an aggressive approach, and reflecting on the successful US introduction, introduced the new integrated strategy as BMW's "Second Great Opportunity" in the United States.

This strategy had three elements:

1. BMW was the Ultimate Driving Machine and not a sofa on wheels. Since US automakers were advertising a floating ride experience that was "so smooth you couldn't feel the road", BMW had become lulled into the same concept.

However, the European automaker had a history of performance. A return to those roots was needed from both the marketers and products. The 1992 models were true powerhouses. The 740 would sport a V8 engine, and the entry 325i would offer 189 hp. In addition the pricing for the new models was aggressive. The \$54, 000 740i was between the Lexus LS400 and the Mercedes 300E. This suggested higher prestige than the Japanese and more value than Benz.

2. A new customer-centric or customer oriented focus was a core part of the new plan. BMW realized that consumers wanted value, even from the luxury automobiles. The franchise was critical in conveying the benefits of "prestige, fun and excitement". The products would backup these values.

3. What BMW called " Organization and People" was a focus on improved customer experience. This required dealers to know their customers. BMW delegated the responsibility and authority to deliver on customer needs. Dealers respected the BMW products but were unclear on the future. Since many sold far more economy cars than BMW's, their effort was focused on the volume sales. BMW was committed to creating a " new standard for customer treatment". This included new account management, retail operations and dealer bonuses.

To prove their resolve in the North American market, BMW built a new auto plant in South Carolina. This \$400 million plant was designed to produce 30, 000 cars per year. It was a huge morale boost for dealers and encouragement for the dealers to invest in their showrooms. The US plant

also offered US wages and materials, which would protect BMW from currency variances which had plagued them in the past.

Gerlinger knew the Japanese were planning to roll out new models every four years, compared to BMW's typical eight year plans. The \$2 billion investment per new model would leave on the mass markets on the sales lots (This sentence doesn't make sense to me). This would require sales of 100, 000+ per year. The new plant, combined with European shipments, would support that vision.

Course of Action and Rationale

In support of the integrated strategy and to succeed in it's sales goal of 100, 000 units for the North American market, BMW should also examine the following strategies:

- 1) Change nothing except produce cars from the US plant.
- 2) Buy back dealerships that are not totally focussed on the luxury car segment.
- 3) Consider targeted and sub-specialized advertising for it's various models.
- 4) Further improve upon the BMW customer care program.

First, we agreed as a group that the "do nothing" strategy would only serve to aid the competitors in stealing market share from BMW. Secondly, the issue with the dealer network should be to buyback dealers not focussed completely on the luxury car segment and resell those dealerships to dealers

willing to specialize in BMW only. This strategy is also in line with the new focus on consumer satisfaction.

Thirdly, the case study also references that "research data" had shown that buyers of BMW's were the youngest and in the highest income bracket (as shown in Exhibit 11 of the study). Exhibit 11 (and Appendix 2) also show a clear distinction between the 3/5 series and the 7/8 series models, as both have distinctive buyers median incomes, buyer's median ages and unit prices. This clustering would suggest that both sets of models would need to be advertised with slightly different emphasis as they would be targeting different buyer income levels.

Fourthly, although BMW has improved upon its customer care program as shown in Exhibit 10, there could still be some improvements made. Namely, they lag behind Lexus and Infiniti in terms of powertrain warranty and behind Lexus, Acura and Cadillac in parts reimbursement. At least matching these companies in these areas will go a long way to improving customer care.

We also believe that from a dealer perspective the Dealer Operating System (DOS) should be renamed for two reasons. The first reason is that DOS conveys a sense of "old" (ie. The old DOS systems of computer operations) and more importantly, the paper also mentions the "dealer operating standards". Dealers should not be confused about which systems to refer to otherwise the goal of creating greater customer value cannot be fully realized.