

Bayerische Motoren Werke (BMW) Group, 2013

www.bmwgroup.com, BMW.DE

Headquartered in Munich, Bavaria, Germany, BMW Group is a world famous German automobile-, motorcycle-, and engine-manufacturing company. In June 2012, BMW was listed in *Forbes* magazine as the number-one most reputable company in the world. Rankings were based on aspects such as “people’s willingness to buy, recommend, work for, and invest in a company.” The rankings were based 60 percent on public perceptions of the company and 40 on public perceptions of their products.

BMW owns and produces the Mini marque and is the parent company of Rolls-Royce Motor Cars. BMW produces motorcycles under the Motorrad and Husqvarna brands led by the K 1200 GT, R 1200 RT, and F 800 S models. BMW Group operates 29 production and assembly facilities in 14 countries and has a global dealer network in more than 140 countries. BMW’s premium lineup includes sedans, coupés, convertibles, and sport wagons in the 1, 3, 5, 6, and 7 Series, as well as the M3 coupe and convertible, the X5 sport active, and the Z4 roadster. BMW has a profitable financial services segment that provides purchase financing and leasing, asset management, dealer financing, and corporate fleets. About 3,000 dealers worldwide sell BMWs.

In calendar year 2012, BMW Group sold 1.85 million cars and nearly 117,000 motorcycles worldwide, the highest annual total ever for the company and an increase of 10.6 percent over the previous record year in 2011. BMW sales in the month of January 2013 were the highest ever in a January for the company; sales grew 11.5 percent to 107,276 units and it was the first time that more than 100,000 BMW vehicles were delivered worldwide to customers in that month.

In early 2013, BMW Group and Toyota Motor Corporation extended their long-term collaboration agreement for the joint development of a fuel-cell system, joint development of architecture and components for a sports vehicle, joint research and development of lightweight technologies, and collaborative research on lithium-air batteries with a post-lithium-battery solution. BMW Group had a workforce of approximately 105,000 employees.

BMW Group reported the best-ever May 2013 sales with 166,397 BMW, MINI, and Rolls-Royce automobiles delivered to customers worldwide, up 5.8 percent from the previous May. BMW Motorrad also had a successful May 2013 with sales up 14.2 percent to 13,081

vehicles delivered. However, in August 2013, BMW customers around the world were complaining intensely about not being able to obtain spare parts for their BMW. The world's biggest maker of luxury cars, BMW has struggled from June to September 2013 to ship components on time because of a new supply-management system being introduced in its central warehouse in Germany. BMW's 40 parts-distribution centers originate at the main warehouse in Dingolfing that also directly supplies about 300 repair shops in Germany. Raimund Nestler—who lives in Ingolstadt, Germany, the home base of rival Audi AG (NSU)—has been waiting six weeks for a new part that controls engine speed. "I have always been a die-hard BMW driver and am currently driving my seventh BMW, but will consider which brand I'll buy the next time," he said by phone. "For a premium carmaker like BMW, this is particularly disappointing." BMW's stock has declined 2.5 percent in 2013 through August, valuing the company at 45.7 billion euros (\$61 billion).

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History

BMW was established in 1917 following a restructuring of the Rapp Motorenwerke aircraft manufacturing company. At the end of World War I, BMW was forced to cease aircraft engine production by the terms of the Versailles Armistice Treaty. The company shifted to motorcycle production in 1923 and once the restrictions of the treaty started to be lifted, began producing automobiles in 1928–1929. The first car produced by BMW was the Dixi, a vehicle whose design was based on the Austin 7, from the Austin Motor Company in Birmingham, England.

BMW's circular blue and white logo, or roundel, evolved from the circular Rapp Motorenwerke logo, but as BMW grew, that emblem was combined with the blue and white colors of the flag of Bavaria. The BMW logo has also been portrayed as the movement of an aircraft propeller with the white blades cutting through a blue sky—first used in a BMW advertisement in 1929, 12 years after the roundel was created.

BMW's first significant aircraft engine was the BMW IIIa inline-six liquid-cooled engine of 1918, much preferred for its high-altitude World War I performance. With German rearmament in the 1930s, the company again began producing aircraft engines for the Luftwaffe. Especially successful World War II aircraft engines were the BMW 132 and BMW 801 air-cooled radial engine, and eventually the BMW 003 axial-flow turbojet that powered Germany's 1944- and 1945-era jets, such as the Heinkel He 162 and eventually the Messerschmitt Me 262.

After outselling Lexus in 2011 and 2012, BMW and Mercedes are vying to be the top luxury auto brand in the USA. Lexus was the top-selling luxury car brand in the USA from 1999 to 2010. Sales of the Toyota Lexus rose 32 percent to 16,211 in January 2013, led by the ES sedan, which more than doubled to 5,186 deliveries.

Internal Issues

Year 2012

In calendar year 2012, BMW sales rose 11.6 percent to 1,540,085 vehicles, the best sales level in the history of the company. Success was led by the highly successful BMW 1 Series, with a total of 226,829 vehicles sold in 2012, an increase of 28.6 percent over the previous year. The BMW X1 also did great in 2012 with a total of 147,776 vehicles sold, up 16.9 percent over the prior year. The BMW 3 Series Sedan did best with 294,039 vehicles delivered, an increase of 22.4 percent over 2011. Sales of the BMW X3 grew 27.1 percent to 149,853 units sold, whereas the BMW 5 Series reported that 337,929 vehicles were delivered to customers in 2012, up 9.0 percent from the prior year. Even sales of the BMW 6 Series grew 146.8 percent, with 23,193 vehicles being delivered to customers.

Also for 2012, global sales of the BMW MINI were a record 301,526 vehicles, up 5.8 percent. The USA remained the largest market for the MINI, with a record-breaking 66,123 cars sold in 2012, followed by the United Kingdom, with 50,367 cars sold. In the ultra-luxury-class segment, Rolls-Royce sales for the full year 2012 reached record sales result of 3,575 motor

cars, the highest annual sales in the 108-year history of Rolls-Royce and the third consecutive record.

Additionally, a record total of 106,358 BMW Motorrad motorcycles were sold in 2012.

Organizational Structure

BMW operates using an autocratic, functional structure with no apparent Chief Executive Officer or Chief Operations Officer and divisional presidents. As indicated in **Exhibit 1**, if executives with these titles exist, they are neither listed on the corporate website nor in the *Annual Report*.

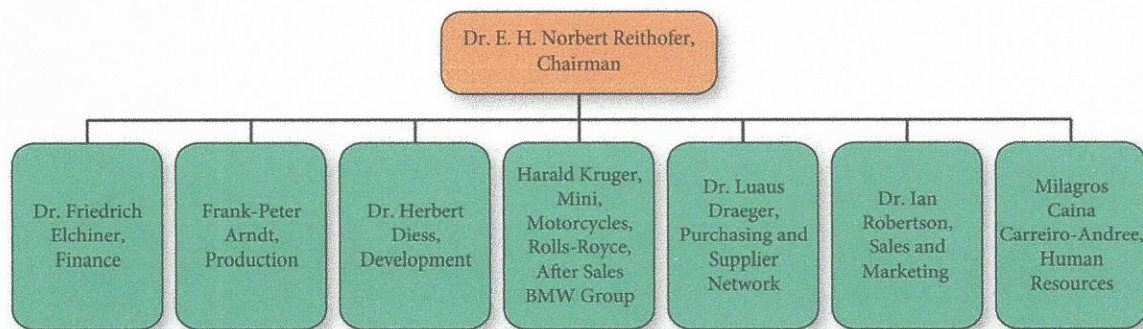


EXHIBIT 1 BMW's Organizational Structure

Source: Based on company documents

Segments

BMW reports their revenues by region and by brand and is doing exceptionally well in all regions and brands. For example, BMW reported its strongest January ever as sales climbed 11.5 percent to 107,276 units for January 2013, the first time ever that more than 100,000 BMW vehicles were delivered worldwide to customers in a January. There were 29,053 BMW 3 Series sold, up 27.9 percent, as well as 11,753 BMW X1 vehicles sold, up 57.8 percent. The BMW X3 continued to be popular with 10,230 vehicles delivered to customers, up 9.4 percent. Sales of the BMW 1 Series were up 8.8 percent to 14,222 units sold, and the BMW 5 Series sales grew 6.4 percent to 23,049. Sales of the BMW 6 Series grew 22.4 percent to 1,354 units. Also in January 2013, worldwide sales of the MINI reached 15,864 vehicles, up 0.6 percent, which was a new all-time high for any January ever.

As indicated in [Exhibits 2](#) and [3](#), BMW's sales in January 2013 increased in all regions and all brands, except Motorrad motorcycles. Despite BMW's record January 2013, rival Audi (owned by Volkswagen AG) beat BMW in 2013 luxury-car market January sales, propelled by a 39-percent jump in Audi deliveries in China, its biggest national market. Audi sold 111,750 cars and sport utility vehicles (SUVs) worldwide in January, a 16-percent increase from a year prior, compared to BMW brand's 12-percent gain to 107,276 deliveries. Global sales at Mercedes (owned by Daimler AG) rose 9 percent in January 2013 to 94,895 vehicles, helped by demand for the A- and B-class compacts and its SUV line-up.

[Exhibit 4](#) reveals BMW's 2012 year-end segment data by region for automobiles. Note the 2.8 percent decline in motorcycle revenues, and the decline in United Kingdom revenues.

EXHIBIT 2 BMW's January 2013 Sales by Region (units sold)

	2013	2012	Change (%)
Asia	43,114	36,422	+ 18.4
China	30,397	26,505	+ 14.7
Japan	3,250	—	+ 19.0

	2013	2012	Change (%)
South Korea	2,790	—	+ 32.9
Americas	25,021	24,419	+ 2.5
United States	20,195	19,739	+ 2.3
Europe	50,594	46,831	+ 8.0
Germany	18,709	17,028	+ 9.9
Russia	2,311	1,653	+ 39.8
Africa*	37,649	32,890	+ 14.5
Oceania*	23,000	21,297	+ 8.0

*For all of 2012

Source: Based on company documents.

EXHIBIT 3 BMW's January 2013 Sales by Brand (units sold)

	2013	2012	Change (%)
BMW Group Automobiles	123,276	112,164	+ 9.9
BMW	107,276	96,184	+11.5

	2013	2012	Change (%)
MINI	15,864	15,768	+ 0.6
BMW Motorrad	4,818	5,237	- 8.0
Husquarna Motorcycles	587	544	+ 7.9

Source: Based on company documents.

EXHIBIT 4 BMW's Revenues By Segment

Revenues		
In € million	2012	2011
Automobiles	50,165	46,681
Motorcycles	980	1,008
Other revenues	7,660	7,318
	<u>58,805</u>	<u>55,007</u>
Germany	11,974	12,494
United Kingdom	4,059	4,061
Rest of Europe	12,303	12,766
North America	12,991	10,903
Asia	14,436	12,042
Other markets	3,042	2,741
	<u>58,805</u>	<u>55,007</u>

Source: Company documents.

Finance

Exhibit 5 shows the income statement for BMW Group.

EXHIBIT 5 BMW's Income Statements

(in € million)	2012	2011
Revenues	58,805	55,007
Cost of sales	-46,252	-43,320
Gross profit	<u>12,553</u>	<u>11,687</u>
Selling expenses	-3,684	-3,381
Administrative expenses	-1,701	-1,410
Research and development expenses	-3,573	-3,045
Other operating income and expenses	703	670
Result on investments	598	181
Financial result	-99	-665
Profit from ordinary activities	<u>4,797</u>	<u>4,037</u>
Extraordinary income	—	29
Income taxes	-1,635	-2,073

(in € million)	2012	2011
Other taxes	-31	-23
Net profit	<u>3,131</u>	<u>1,970</u>
Transfer to revenue reserves.	-1,491	-462
Unappropriated profit available for distribution	<u>1,640</u>	<u>1,508</u>

Source: Company documents

EXHIBIT 6 BMW's Balance Sheets

(in € million)	2012	2011
Assets		
Intangible assets	178	161
Property, plant and equipment	7,806	6,679
Investments	3,094	2,823
Tangible, intangible and investment assets	<u>11,078</u>	<u>9,663</u>
Inventories	3,749	3,755
Trade receivables	858	729
Receivables from subsidiaries	6,297	5,827
Other receivables and other assets	2,061	1,479
Marketable securities	2,514	3,028
Cash and cash equivalents	4,618	2,864
Current assets	<u>20,097</u>	<u>17,682</u>
Prepayments	118	120

(in € million)	2012	2011
Surplus of pension and similar plan assets over liabilities	672	43
Total assets	<u>31,965</u>	<u>27,508</u>
Equity and liabilities		
Subscribed capital	656	655
Capital reserves	2,053	2,035
Revenue reserves	5,515	4,024
Unappropriated profit available for distribution	1,640	1,508
Equity	<u>9,864</u>	<u>8,222</u>
Registered profit-sharing certificates	32	32
Pension provisions	56	84
Other provisions	7,406	7,651
Provisions	<u>7,462</u>	<u>7,735</u>
Liabilities to banks	1,408	911
Trade payables	3,900	2,940

(in € million)	2012	2011
Liabilities to subsidiaries	8,451	6,923
Other liabilities	800	741
Liabilities	<u>14,559</u>	<u>11,515</u>
Deferred income	48	4
Total equity and liabilities	<u>31,965</u>	<u>27,508</u>

Source: Based on company documents.

Competitors

The combined sales for Toyota's Lexus, Daimler's Mercedes-Benz, BMW, Honda's Acura, GM's Cadillac, Volkswagen's Audi, and Nissan's Infiniti, which are the seven best-selling luxury brands automobiles in the world, rose 15 percent in the USA in 2012 through November. Growth in sales of luxury vehicles exceeds growth in all other automobile categories, and these brands are fiercely competitive globally.

Exhibit 7 provides a financial summary of leading luxury-car manufacturers. Note that BMW is the smallest firm in terms of number of employees, but it has the second highest earnings per share (EPS).

Volkswagen

Headquartered in Wolfsburg, Lower Saxony, Germany, Volkswagen (VW) is the largest German automobile manufacturer and the second- or third-largest automaker in the world behind GM or Toyota. The word *volkswagen* means "people's car" in German and is pronounced *folks wagen*. VW aims to double its U.S. market share from 2 percent to 4 percent by 2014 and aims to be the world's largest carmaker by 2018. VW introduced diesel-electric hybrid versions of its most popular models in 2012, including the Jetta, followed by the Golf Hybrid and the Passat. VW also owns Porsche.

Mercedes-Benz

Headquartered in Stuttgart, Baden-Wuttemberg, Germany, Mercedes-Benz is a division of the German automobile manufacturer Daimler AG. Mercedes-Benz is active in three forms of motorsport racing: Formula Three, DTM, and Formula One. The parent, Daimler AG, holds

a 60 percent stake in Formula One team Mercedes-Benz Grand Prix, as well as a 22 percent stake in aerospace and defense consortium EADS. Daimler sells its vehicles in 40 countries, but Europe represents 40 percent of its sales.

EXHIBIT 7 A Financial Comparison of BMW with Rival Firms (in U.S. dollars)

	BMW	VW	Daimler	GM	Toyota	Nissan
Revenue (\$)	76.1B	251B	153B	151B	243B	102B
Net Income (\$)	5.1B	30B	7.5B	4.5B	8.3B	3.3B
Profit Margin (%)	6.65	11.9	4.9	3.0	3.4	3.2
Debt-to-Equity Ratio	1.47	1.24	1.85	0.40	1.15	1.45
EPS (\$)	7.27	12.82	7.03	2.67	2.60	0.79
Number of Employees	106K	549K	275K	213K	325K	157K
Revenue per Employee (\$)	717K	457K	556K	708K	747K	680K

EPS, earnings per share.

Source: Based on company information.

Mercedes-Benz's U.S. sales surged 11 percent in January 2013, in its effort to overtake BMW in luxury-auto deliveries for all of 2013. Mercedes sold 22,501 vehicles in January 2013, its best January ever, and helped the C-Class sedan's 11 percent climb to 7,214 units sold. In comparison, sales for BMW increased 0.7 percent to 16,513 units, boosted by a 56 percent gain for its X5 SUV.

Toyota Motor Corporation

Headquartered in Toyota, Aichi, Japan, Toyota runs neck and neck with GM as the largest automobile company in the world. Toyota's U.S. operations are headquartered in Torrance, California. Popular Toyota models include the Camry, Corolla, Land Cruiser, and Lexus, as well as the Tundra truck. The Lexus competes directly with BMW. Lexus sales were up 23 percent in the USA in 2012 through November and are expected to gain at least 10 percent in 2013.

Volvo Car Corporation

Headquartered in Gothenburg, Sweden, Volvo, or *Volvo Personvagnar AB*, is owned by Zhejiang Geely Holding Group China, headquartered in Hangzhou, China. Geely acquired Volvo in 2010 from Ford Motor Company. Volvo manufactures and markets a wide range of vehicles, some that compete with BMW. With approximately 2,300 local dealers from around 100 national sales companies worldwide, Volvo's largest markets are the USA, Sweden, China, Germany, the United Kingdom, and Belgium. In 2011, Volvo recorded global sales of 449,255 cars, an increase of 20.3 percent compared to 2010. In 2012, Volvo signed NBA star Jeremy Lin to an endorsement agreement. Over the next two years Lin will participate in Volvo's corporate and marketing activities as a "brand ambassador" for Volvo.

Audi

Headquartered in Ingolstadt, Bavaria, Germany, Audi Aktiengesellschaft (Audi) designs, engineers, manufactures, and markets automobiles and motorcycles. Audi-branded vehicles are produced in seven production facilities worldwide. AUDI AG has been a majority owned (99.55 percent) subsidiary of VW since 1966. In September 2012, Audi began construction of its first North American manufacturing plant in Puebla, Mexico, expected to be operative in 2016 and produce the successor to the Q5.

In 2012, Audi again won the 24 Hours of Le Mans, a historic first Le Mans victory for a hybrid, which was captured by Audi's R18 e-tron quattro. Audi's other R18 hybrid took second, whereas R18 ultras took third and fifth. This sports car racing success followed Audi R18's victory at the 2011 24 Hours of Le Mans. The Audis finished in front of three Peugeot 908s by 13.8 seconds to claim victory.

Audi offers a computerized control system for its cars, called multimedia interface (MMI). This advancement came amid criticism of BMW's iDrive control, a rotating control knob and "segment" buttons—designed to control all in-car entertainment devices (radio, CD changer,

iPod, TV tuner), satellite navigation, heating and ventilation, and other car controls with a screen. Some believe MMI is a considerable improvement on BMW's iDrive, although BMW has since improved their iDrive.

Business Culture in Germany

Germany survived the 2008 recession in good position thanks to their strong economy and manufacturing base. Unemployment in Germany is lower now than it was in 2008. German companies are generally run by individuals specializing in various technical areas. For example, a car company is more likely to be run by an expert mechanical engineer in Germany than an expert accountant or finance individual. This technical nature often extends down the chain of command for other key positions as well. For example, responsibility is often delegated to another technically sound individual, who then expects his or her manager to leave them alone to perform the task with little oversight. People from other cultures often view this approach as distant and cold. In addition, socializing is much more common at the peer level than up or down the hierarchy in Germany.

Meetings in Germany generally start on time with all members in attendance having well researched any aspects of the meeting that touch on their area of expertise. It is often assumed by people outside Germany that "German businesspeople have their minds made up before the meeting even starts," but this is not the case. Germans take a sense of pride in their subject matter and want to be as well prepared as possible, so they can contribute and make key points during the meeting. During a meeting, it is expected that individuals will contribute when the discussion touches on their area of expertise. This is an overriding theme in German business, where well-prepared specialists are groomed and preferred to generalists. This line of thinking also extends into teamwork in Germany. Each team member answers to the leader, but each tends to focus on his or her individual technical task, with little overlapping conversations, at least in technical nature, with other team members.

Communication in Germany tends to be direct and to the point. Supervisors tend not to sugarcoat their reviews or requirements for subordinates, instead informing them in direct words their performance reviews, expectations, and so forth. In addition, when interviewing a German worker for a job, they will tend to describe in clear terms what they are capable of doing, rather than speaking in vague terms like in other cultures. German workers tend not to oversell themselves in an interview; if they claim they are capable of a task, you can generally bet they are capable.

Dress in Germany is professional but not as clearly defined as in the United Kingdom, USA, or many Asian nations. Women often wear dress pants, rather than dresses or skirts, and men often wear sport jackets, as opposed to black or blue suits. Despite having a woman president as leader of Germany, women in Germany still lag behind women in other European nations in securing top-level management opportunities, partly because women are not majoring in the technical fields as commonly as men; senior-level jobs generally go to individuals heavily trained in key technical areas.

The Future

China overtook the USA in 2012 as BMW's biggest international market, with the company's sales in China rising 14 percent to 28,597 automobiles and motorcycles. "Looking ahead, we expect the headwinds in Europe to remain," said Ian Robertson, BMW's head of sales and marketing. "However, we are confident of healthy sales growth in other regions, especially Asia and the Americas."

BMW borrowed a new retail concept from Apple stores, which was tested in the United Kingdom, by rolling out its version on the Apple "Genius Bar" across Europe. The iPad-equipped, specially trained "BMW Genius Everywhere" staff will give customers information about vehicles and features, but they will not sell cars. The new BMW employees wear a white polo shirt that says "BMW Genius," but they are paid a salary, not a commission on sales. A pilot program for the "BMW Genius Everywhere" program will began in the USA in late 2013, with a full launch by early 2014, which is when the new BMW i3 electric car is set to go on sale.