

# Building & Sustaining Strategy: Bayerische Motoren Werke (BMW) – Automotive Industry

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## Abstract

*Despite the continuous period of strong growth and positive global sales gains in the auto industry, automakers are still faced with high uncertainties of how the future may influence the industry trends. Automakers now, have to think outside of the box to attract and retain customers, build market share and increase profit margins. This article will show you how one of the world's best-selling luxury automakers, BMW runs their business operations across regions worldwide.*

**Keywords:** BMW, Automotive Industry, Strategic Goals of BMW, Core Competencies, Strategic Capabilities, Value Chain Analysis, PESTAL, Stakeholders

## INTRODUCTION

BMW is one of the “German Big 3” luxury automakers (Ciferri, 2013), along with Audi and Mercedes-Benz, which are the 3 bestselling luxury automakers in the world. It produces MINI and Rolls-Royce Motor Cars, and is well-known for offering wide arrays of automobiles of premium standards and outstanding quality worldwide.

Mission statement refers to the organization's ultimate purpose and keeping managers focused on what is central to their strategy (Johnson, Scholes, Johnson, and Whittington, 2011).

The mission statement up to the year 2020 clearly defined: “BMW group is the world's leading provider of premium products and premium services for individual mobility” (BMW UK Limited, 2013). BMW's mission aims to communicate to customers that BMW's reputation and quality will become even stronger and continue to provide top-notch products and services for customers. It reveals BMW's desire to become the most successful premium automotive firm in the industry.

Vision is the desired future state of an organization, with the aspiration to motivate the organization members' energy and passion (Weber, 2004).

BMW's vision is “efficient dynamics vehicle that preview tomorrow's driving pleasure using today's technology” (BMW, 2013). Its vision is simple and realistic. BMW offers unique and premium products which cater to the needs and requirements of its niche segment. This shows that BMW is willing to take the risk and engage in discovering hidden opportunities in the business environment along with challenging technology to create new and innovative products. Its vision will be relevant for a long time as the choice of words: tomorrow's driving pleasure and today's technology depicts BMW's determination to be always in the move of new innovations.

Both BMW’s mission and vision are appropriate, for its survival in the premium automotive industry, to a relatively large extent. To keep up in the fierce competition in this industry and grow its market share, BMW will have to constantly come up with new and innovative products to become world’s number one in terms of reach, acceptance and revenue.

According to BMW annual report (2012), BMW set its objectives to sell more than 2 million automobiles annually by 2016 and target an increase of 8 to 10% in earnings before interest and tax margin in automotive segment. These objectives are expressed in financial terms. The target is very specific as it states the desired sales levels by a certain time period, to be achieved. It is measurable by the sales figures, closely relevant to its mission and most importantly, honestly achievable.

Cardy and Leonard (2011) share a list of goals designed by BMW:

- Manufacture environmental friendly cars
- Stay ahead in the competition
- Help the society by being responsible
- Increase the sales all across the world
- Group-wide environmental protection

These strategic goals of BMW are proven important and will affect the company in the long run. It takes into concern of various aspects like the environment, society, business and product, portraying BMW as a corporate social responsible organization. However, the statements are vague such as it did not specify the time period of the attainment of goals and are too broad to identify its focus areas such as group-wide environmental protection.

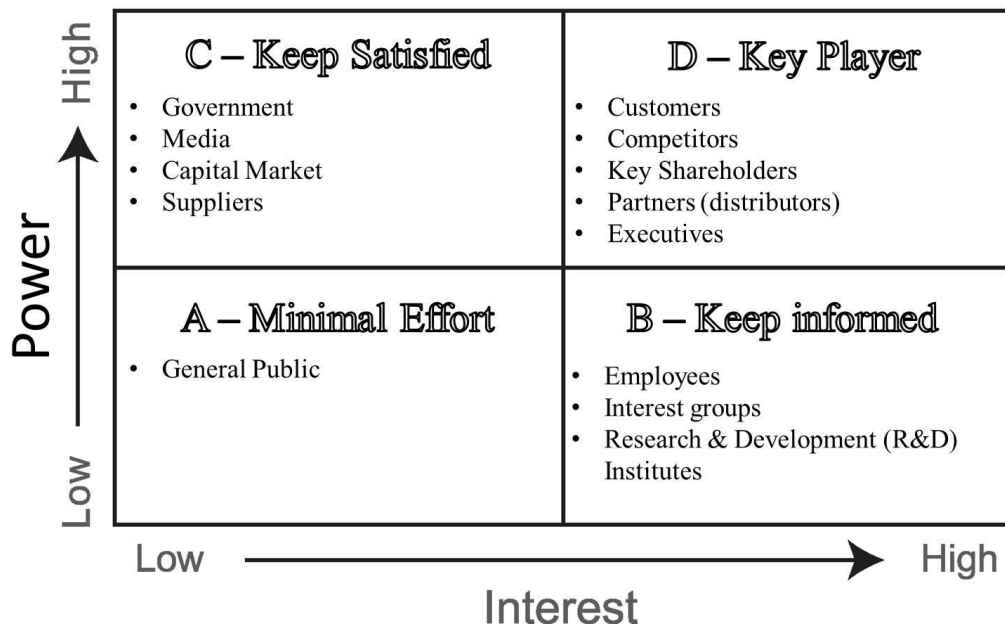
**STAKEHOLDERS**

Stakeholders refers to individuals or groups who depend on an organisation to fulfil their own goals and on whom, in turn, the organisation depends on (Cwmifg, 2012). A stakeholder universe (Appendix A) shows all the stakeholders of BMW. They can be categories into internal and external stakeholders (Bmw.co.uk, 2013).

Internal Stakeholders	External Stakeholders
Shareholders	Customers
Employees	Partners (Distributors)
Executives	Suppliers
	Media
	Competitors
	Capital Market
	Government
	Interest Groups
	R&D Institutes
	General Public

The stakeholder mapping uses power and interest matrix, which helps identify stakeholder expectations and power and understanding political priorities. This is essential as it greatly affects the company’s final decision.

### BMW's Stakeholders Mapping



Adapted: Mendelow (1991) cited in Johnson, Scholes & Whittington, 2009, page 156. Key stakeholders of BMW: Competitors, customers, key shareholders, partners and executives.

Customers are the users of the automobiles. Their power to influence the decision of the company is high as the spending power lies with them. BMW has to constantly engage with the customers and keep them updated on the latest trend.

Both BMW's mission and vision are customer-oriented, emphasizing on the consumers of their automobile. They aim to incorporate modern technology with high-class automobile to create a convenient and pleasant driving experience. They attempt to portray themselves as a lifestyle icon, but at the same time creating uniqueness through diversity (Bart, 2010) via constant "upgrades" and changes to try and satisfy customer's needs alongside with technology advancement.

With BMW as the global luxury leader, Audi and Mercedes have step up various strategies and efforts to topple BMW. To defend its premium leadership, BMW needs to monitor its competitors very closely for any new product launch or strategy in order to respond swiftly. Any new strategy launch by competitors will threaten BMW's market share, acting as external pressure on BMW to carry out counteract measures.

Key shareholders are investors of BMW, the source of its working capital. Appendix B depicts the BMW shareholder structure, with the Quandt family identified as the key investors (Grin, 2012). They hold significant amount of shares, giving them great power to influence the company's situation with their decisions. BMW have to keep them satisfied and well-informed via the company's annual financial and investor relations reports.

BMW's financial objectives exist to satisfy these shareholders. With higher sales targets and sustainable profit margins in the long run, this increases shareholders' value and BMW's credit rating.

To maintain trust and good relationships with business partners, BMW have to share information to keep them updated. Partners' coordination and support are key factors

to BMW's success. Executives are the management of BMW who hold authority to make daily operations decisions, initiate strategies for new business development and manage the entire company. They have to know all details, trends and on-going environmental changes which will affect BMW's business performance.

BMW goals attempt to satisfy a bigger group of stakeholders: interest groups and employees. Being responsible for the environment, society and product, BMW is able to establish good relations and reputation globally with entities such as the Green Peace, Road Traffic Safety (Anton, 2008). BMW design their automobiles to reduce emissions and attain acceptable environmental standards in order to gain support from various entities, which indirectly boost sales figure. Sustainable management of the company serves as great confidence for employees, in turn boosting work attitude and productive efficiency.

BMW tries to strike a balance in satisfying all stakeholders' interest but was unsuccessful. Hence, it has to consider the ones with greatest impact on the company's future performance. BMW must make decisions, at the cost of other stakeholders' interest, to achieve sustainable growth.

### **PESTEL Analysis**

PESTEL stands for political, economic, social, technological, environmental and legal which describes a framework of macro-environmental factors used to analysis the impact (Johnson, 2010) on BMW.

#### *Political environment*

Europe introduces end-of-life directives whereby car manufacturers have to recycle vehicle parts like tires and airbags, posing additional recyclability and scraping costs on BMW. BMW reacted by producing automobiles of at least 85% recyclable and up to 95% recoverable (Bridwell, 2009). However, the stringent directives still remain as a threat to BMW's sustainability.

The taxes and government policies are crucial to BMW's success of automobile demand in the global market. The Singapore government imposes high taxes on imported vehicles. A BMW 335i convertible costs 5 times more than the same car, in US, after tax (Aquino, 2011). The implementation of the tax policy has resulted in a decrease in demand of the niche segment.

#### *Economic environment*

As BMW has production facilities located globally, it can spend its revenue in the same currency. However, with different manufacturing models assigned to each factory, BMW will not able to match up its revenue with cost. Currently, BMW is exposed to high currency risk from US dollar, British Pound and Chinese Renminbi. These account for 65% of BMW's total currency exposure (Automotive-Management, 2011). When BMW settles a deal in foreign currency, an exchange rate hedge is concluded to eliminate the risk.

The cost of crude oil has a great influence on the price of manufacturing and demand of automobile; hence a rise in its cost will impact BMW in two negative ways. It is expected to rise due to increased demand from emerging markets and in response; BMW develops "greener" automobiles like hybrid cars.

Since the 2008 financial crisis, economic and business focus have shifted to developing economies in the Asia region. With rising global market position, these countries have capital flow surplus and its people now have higher buying power.

Increased wealth lead to rising consciousness of social status and this can benefit BMW in terms of higher demand. BMW can seize the opportunity to set up more plants within the Southeast Asia region to enjoy low cost and high demand.

#### *Technological environment*

BMW uses technology to gain competitive advantage in the production of engines, hence winning many glorious engineering awards in the industry.

With rising awareness of global environmental phenomenon, it creates the opportunities for BMW to explore a new production direction by incorporating “green” technology into its business strategy. Having done in-depth research in hybrid electric cars and hydrogen cars, BMW aims to manufacture the most innovative product. In the near future, BMW will continue its emphasis on developing new clean technologies for constant innovation and enhancement of its products.

#### *Environmental*

With increasing awareness of global phenomenon, there is a shift in consumers’ preferences towards eco-friendly vehicles: hybrid and fuel cell cars. This affects the change in demand for a different product line and new product directions.

In BMW’s existing markets, environmental concern plays an important role of living up to emission standards and environmental directives. BMW observed the changing trend of customers’ preferences and support for “green” products, and therefore responded by increasing its focus on manufacturing more fuel-efficient automobiles. Through this, BMW achieved its lead on the Dow Jones sustainability index (Walsh, 2012) and is working hard to stay ahead of sustainability in creating innovative solutions.

The PESTEL analysis suggests continuous improvement for BMW. The introduction of new regulations and tax policies are crucial political factors. Economic factors are identified as having the most direct effect on BMW profitability. Despite increasing GDP, the various cost price increase and risk factors still pose as a threat to BMW. New technologies will contribute to sustainable solutions for “greener” products. These factors have both positive and negative outlook on BMW, and therefore BMW should react on making the possible negative outlooks favourable.

Porter’s 5 forces framework helps to identify an industry’s attractiveness in terms of 5 competitive forces: threat of new entrants, threat of substitutes, power of buyers, power of suppliers and competitive rivalry. Dorian (2013) states they constitute the industry profitability by evaluating the relative power each force holds, providing a comprehensive analysis for effective strategic decision making.

#### **Threat of new entrants: LOW / MODERATE**

##### *Distinct brand image*

BMW brand is defined by high marketing budgets and high quality inputs, thus is considered more luxurious and of better quality than other brands like Toyota and Mazda. With a consistent well-distinct and established brand image since 1975, customers desire to make a statement with their purchase of a BMW automobile, just like what BMW marketing ensure: sheer driving pleasure and the ultimate driving machine. This result in new entrants having to set aside high budget to brand their products so it is as good as or even better than BMW, to attract customers.

##### *High initial R&D investments*

To succeed in the premium automotive industry, the main focus is the continuous development of automobiles in terms of design, production, quality-management and technology. New entrants need to set up production factories, offices, showrooms, which amount to high fixed costs. Substantial capital for R&D investments is required to achieve an edge in innovations and BMW has already achieved its competitive edge.

#### *Distribution Network*

BMW has a large extensive distribution network spread over more than 150 countries worldwide (Schmid and Grosche, 2013), distributes via showrooms, independent dealers, subsidiaries or importers. Over time, BMW gained access and connections with fixed specialized suppliers to secure their quality requirements. New entrants must build this network which is very expensive, time-consuming and difficult.

### **Threat of substitutes: LOW**

#### *Other transportation modes*

This threat arises from other products which can also perform the basic task of automobiles: transporting from one point to another. These could include other modes like the plane, bus, train, bicycle and walking.

#### *Other car manufacturers*

Brands like Suzuki and Hyundai, not currently present in the premium segment might venture into the premium segment to try increase profit margins. These car manufacturers operate the automobile segment at low prices, competing on the best prices and their margins are considerably lower than BMW.

#### *New Technologies*

The automotive industry is constantly producing increasingly sustainable products, such as the production of hydrogen powered cars. BMW developed its very own EfficientDynamics technology (BMW, 2013) to reduce consumption and emissions while still ensuring sustainable mobility. BMW invested heavily in R&D for new intelligent innovations for enhance performance and experience. Despite the presence of Audi and Mercedes, BMW has already achieved an upper hand in this field.

### **Bargaining Power of Buyers: MODERATE**

#### *Moderate switching cost*

BMW's customer base comprises high-income buyers, who are relatively price-insensitive but expect highest quality deliverance. They purchase BMW automobile for its quality perceived value, and have very high expectations of its after sales support service. Although BMW's brand is reputable, there is a possibility of customers approaching other competitors for similar models if unsatisfied as it does not involve much cost. Hence, BMW developed a customer relationship management program to provide extra services to build customer brand loyalty relationship to minimize customer switching. BMW offer series i3 owners the privilege of borrowing fuel-powered car from their dealer for longer range vacation travel (BMW Blog, 2013).

#### *Customer Loyalty*

According to Abubakrag (2012), BMW achieve the highest rates of customer loyalty with 65%. With established stable and recognized identities, BMW is able to build a substantial group of loyal customers who are satisfied with their product and service within a short span of time. BMW has close customer relations such as long-term service contracts and excellent loyalty program (Schmidt, 2010). Strong customer

loyalty and relations will help keep this group of major customers to continue supporting BMW in the long run, indirectly increasing their switching cost.

### **Bargaining Power of Suppliers: HIGH**

#### *Quality Parts*

BMW production of automobiles requires high quality inputs which only few suppliers can meet its requirements. Hence, BMW is highly dependent on these few suppliers for consistent supply of quality resources and so suppliers now have more power over BMW as they can decide whether or not to supply BMW the parts.

#### *High Switching Costs to Alternative Suppliers*

Upon entering into a supply relation with a supplier, BMW has to thoroughly investigate its company profile's financial status, reliability and quality of parts. It will be highly disruptive for BMW's production process to change a different supplier as BMW will have to re-conduct supplier background investigation and re-build relations. High level of trust with suppliers result in strong relationships that could lower the bargaining power of supplier as both BMW and suppliers depend on each other for business.

#### *Just-in-Time (JIT) Production*

BMW uses JIT inventory management, which exposes BMW to risks of disrupted production due to input shortages. To meet demand and leverage risk associated with supply dependencies, BMW enter into strategic alliances with industry suppliers to increase supply chain efficiency. This shows greater dependence of BMW on its partner suppliers.

### **Competitive Rivalry: VERY HIGH**

#### *Competitor Balance*

BMW, Audi and Mercedes-Benz engage in intense cut-throat competition to become the world's luxury car leader (Automotive-news, 2013). All 3 have the same target market and similar positioning. Since 1990s, the title of world luxury car leader has changed hands from one company to another. BMW just regained the title from Audi, and has been constantly running its operations at full capacity to keep ahead of the rest (Marketinomics, 2012).

#### *High Exit Barriers*

It is very difficult for a company to exit the premium automobile industry as each company holds strong long-term commitments to their customers due to the product life of their automobiles. Customers expect long-term customer service and it is highly unlikely for a company to simply exit the industry for making small losses each year and forgone the initial high investments.

Forces	Extent of effect
Threat of New Entrants	LOW / MODERATE
Threat of Substitutes	LOW
Bargaining Power of Buyers	MODERATE
Bargaining Power of Suppliers	HIGH
Competitive Rivalry	VERY HIGH

In conclusion, the luxury automotive industry is assessed to become more competitive in the future. This puts pressure on BMW to continually improve in order to stay ahead of the competition.

In view of possible future changes, the threat of new entrants and substitutes may both reach a moderate level as they may be new entrants and innovations in the industry. If the new entrant can successfully establish its name in the industry, it will become BMW's worthy competitor. In order to maintain or improve current market share and brand image, incumbents must constantly develop new innovations and technologies. The success of the other competitors' strategies will prove as a threat of substitute to BMW.

The overall influence of forces predicts a challenging situation for BMW. The most significant forces are the increasing intensity of competition between rival companies and uprising potential threat of substitutes which both constantly threatens BMW's position and market share. BMW strong brand identity and R&D experience are the key factors to help BMW remain competitive in the future.

### Resourced-Based View Strategy

The resource-based view identifies the distinctiveness of BMW's superior performance and competitive advantage to generate unique creations of product and service at lower cost which enables it to earn higher profits (Cardy and Leonard, 2009).

Resource-Based View Strategy of BMW		
	Resources	Competences
<b>Threshold Capabilities</b>	<ul style="list-style-type: none"> <li>• Integrated supply chain</li> <li>• Young employees</li> <li>• Wide spread production and assembly units</li> </ul>	<ul style="list-style-type: none"> <li>• High quality products and services</li> <li>• Technical design knowledge</li> </ul>
<b>Capabilities for Competitive Advantage</b>	<ul style="list-style-type: none"> <li>• Engineering excellence</li> <li>• High quality and value-added workforce</li> <li>• Brand management</li> </ul>	<ul style="list-style-type: none"> <li>• Made-to-order cars</li> <li>• Technology and ability to translate technical knowledge into new products for customers</li> </ul>

Adapted: Johnson, et al (2011), page 87



**Strategic capabilities**

Strategic capabilities mean an organization having the sufficiency and appropriateness of expertise and resources to its long-term survival and growth (Kourdi, 2010).

*Engineering Excellence*

BMW focus on engineering excellence allied to leading-edge design to drive successful, profitable expansion. Being the expertise in the field of light-weight construction, comprehensive energy and heat management inside the vehicle, BMW introduces new IT options: MP3 connectivity and RSS feeds. With pronounced performance design, hybrid engine options and high level innovation, BMW restates its aspiration as a leading premium brand.

*Value-added Workforce*

The Economic Times (2011) showed BMW asserting its position as the most attractive German employer. Norbert Reithofer, Chairman of BMW Group emphasized that employees are their most important success factor. BMW believe that motivated, dedicated employees and young talents contribute to its success. Kolfer (2011) reported the increase in number of apprentices in Germany by 10% in 2011, reaching 4,266 apprentices by end of 2012. They invested more than €280 million in professional training to provide their employees with the required qualifications. A well-coordinated system of talented employees is adopted to ensure BMW's competitiveness.

*Brand Management*

The BMW brand represents sporty, performance oriented automobiles of high level craftsmanship and ingenuity. Under the slogan: "The ultimate driving machine", BMW has consistently delivered the same message and brand promise for the last 40 years and has thus, established a strong brand identity. BMW's brand name proves to be a tangible resource while its reputation is intangible. The key to BMW's success is consistency and authenticity of their marketing strategies and policies. BMW automobile owners are very particular about the image of the brands they use.

**Core competencies**

Hoskisson, Irelland and Hitt (2004) refer core competencies as "crown jewels of a company", and activities an organization performs especially well compared with competitors and through which, the company adds unique value to its product and services over a long period of time.

*Customer-focus*

BMW seek new avenues of value-added processes to meet customers' requirement and keeps itself updated of new trending customers' preferences. It allow customers to order cars exactly the way they want and promises delivery between 2 to 6 weeks, even providing customers a video of their car being "born". Custom-building of cars allows BMW to take slack out of the production process, reduce inventory costs for dealers and avoid hefty rebates on cars that are not selling. This improves customer loyalty as customers are now more satisfied with their purchase. Custom-made cars are often loaded up with more options, meaning higher profit margins. This gives BMW a competitive advantage over Audi and Mercedes, as they believe more than 40% of their buyers will do so by 2015 (Megan, 2013).

*Innovation*

R&D technological expenditure for 2012 rose by 17.2% to 3,952 million, aim to propel BMW innovation leadership (Cioban, 2013). Technology is central to BMW's strategic

decisions for sustainability and profitability. With technology, BMW's strategy initiatives include: reduced emissions, lightweight construction, engine efficiency, driver's online assistance and in-car entertainment features. BMW's leadership and capability in technology and innovation took off since 1917, developing its engine to become one of the core competences. Since 1990, BMW has reduced the average fuel consumption and emissions of automobiles sold by nearly 30% (Goschel, 2005). In all, it help creates BMW's competitive advantage in terms of high product quality and performance, and providing luxurious driving experience for customers.

#### *Supply Chain Management*

BMW's global supplier network has more than 12,000 suppliers in 70 countries. To establish sustainability with all the suppliers throughout the supplier network, BMW refined over three-step risk management process in 2012 (Appendix C). It constantly implements supporting measures for employees and suppliers to guarantee continuous improvement and sustainability throughout the entire global network. In addition to BMW own measures and process, it collaborate with suppliers to introduce new measures and structures to consistently push for more sustainability in the supply chain. Such measures include the annual supplier innovation award to complement a competition on ideas for BMW's products and processes to enhance resource and cost efficiency (BMW, 2013).

One of BMW's biggest and longest competitors is General Motors Company (GM). GM is the world's largest auto manufacturer and has been the annual global industry sales leader for 77 years (Wojdyla, 2009). GM has a strong brand portfolio and the power to set the industry standards. It has a global market coverage and share of 11.4% in 2013. With operations in more than 50 countries, it owns a wide diversity of reputable brands ranging from Chevrolet to GMC to Cadillac.

#### *Technology and innovation*

Driven by the vision of future transportation, GM uses technology to create products to change the lives of their customers. Introducing semi-autonomous driving vehicles (GM, 2013) incorporated with active safety technologies with the aim to reduce accidents and increase independence, GM believes this capability will make customers' driving experience easier and more enjoyable.

#### *Environmentally-friendly design strategy*

GM focuses on producing vehicles with emission-free driving: full electric vehicles and hydrogen fuel cell. It has several technological alliances with companies like Toyota and Honda. GM and Honda will co-develop the "next generation" fuel cell system and hydrogen storage technologies. This will aid GM to accelerate the market penetration of this new clean mobility technology.

#### *Customer-focus orientation*

The new CEO, Dan Akerson initiates a new direction: GM is free to design cars that appeal directly to customers (Gregburns, 2011). GM aims to introduce new models faster, to build cars which people will want to buy and not cars that the company needs to sell.

It is very clear-cut that technologies for new innovations are these companies' essential core competencies. Both companies placed heavy emphasis and investments in the R&D segment to seek new breakthroughs and out-beat one another. They align strategies with customers' requirements to boost sales and image. With increasing global awareness of environment protection, both companies react by incorporating the environmental-friendly concept into their process and products. This move will portray their image as a social responsible organization, an

encouraging factor for customers to continue supporting them. These have become the core focus for improvements and larger market share in the luxury automotive industry.

### VRIN Framework

The VRIN framework is an internal analysis procedure which specializes in evaluating the future outcome on competitive advantage of a firm's current resources and capabilities (Klein, 2012).

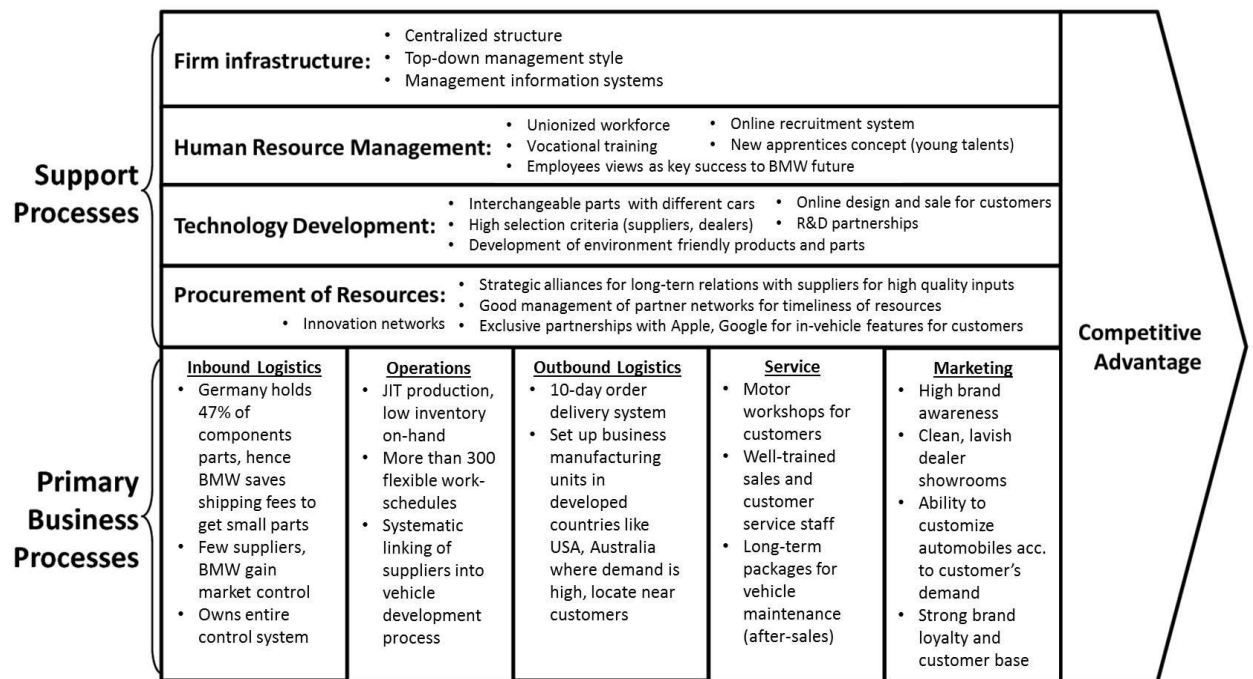
Resource	Valuable	Rare	Costly to Imitate	Non-substitutability	Outcome	Performance
<b>Brand Portfolio</b>	Yes Increased efficiency engines and impressive designs	Yes BMW has almost 100% brand recognition.	Yes BMW is the 3 <sup>rd</sup> most recognized automobile brand in the world.	Yes	Sustainable Competitive Advantage	Above average returns
<b>Innovative capabilities</b>	Yes Increased efficiency engines and impressive designs	Yes	Yes	Yes New technologies are founded by BMW's in-house R&D	Sustainable Competitive Advantage	Above average returns
<b>Production Network</b>	Yes Allows flexible working models to meet customer demands and keep 10-day delivery standard.	No	Yes Initial start-up capital and investments for manufacturing plants is large.	No	Competitive Parity	Average Returns
<b>Partnerships with Apple, Google</b>	Yes Value-added in-vehicle features available to customers.	No	Yes Social complexity and legal agreements prohibit others from doing the same.	Yes/No	Temporary Competitive Advantage	Average/Above Average Returns
<b>Engine Control Patent</b>	Yes Increase automobiles' performance but reduces fuel consumption and emission	Yes It is patented	Yes	Yes	Sustainable Competitive Advantage	Above average returns
<b>Vocational and Professional Training</b>	Yes Motivate employees and equip them with necessary skills and knowledge for BMW's growth	No Competitors also employ similar strategies	Yes Training programs are costly in terms of lost work productivity (time away from job) and resource allocation	No	Competitive Parity	Average Returns

The VRIN framework identifies and evaluates BMW's resources, and the above table shows that BMW has attained sustainable competitive advantage in the premium automotive industry in terms of its reputable brand portfolio, innovative technological and design capabilities and patent license of its outstanding engine design. BMW's brand portfolio is highly recognized and unique. It is very difficult for others to duplicate and substitute this valuable and rare resource even with large capital and different resources and capabilities. BMW's technological capabilities help develop highly-efficient engines which increase vehicle performance but reduce fuel consumption and emission. By producing "value-added" automobiles, BMW successfully delivers to customers' requirements. They own these new technologies, developed by their very own R&D expertise. Applying for a patent for such

technology helps BMW to eliminate the risk of substitution and imitability, allowing these essential core competences to create long-term competitive advantage for BMW's business performance.

The value chain concept developed by Michael E Porter (Appendix D) provides a systematic means of categorizing activities and functions of an organization, illustrating the creation of value for customers. It helps the company to determine which activities create value and which do not. When the value chain is capable of creating additional value at no additional cost, a competitive advantage is realized (Maguire, 2011).

### Value Chain Analysis - BMW



Adapted: Johnson, et al (2011), page 98.

#### BMW using their capabilities and competences effectively

In BMW, they see employees as a very important factor to the company's overall success. To encourage a sharing and learning working environment, BMW organize various activities and trainings. Consumer concerns about quality are significant; hence BMW takes several efforts and measure to boost the employees' confidence as their working attitude strongly affects their work capacity and production efficiency and quality.

R&D allows BMW to produce vehicles of higher quality and affluence with unique customization and consistently delivers the latest technological features. Sarriddine (2013) mention BMW carry low inventory and design 300 work-time models and flexible facilities, successfully delivering on its 10-day order-to-delivery goal. BMW's collaboration with Sprint helps connect and coordinate all operation units smoothly and quickly. This greatly reduces operational costs and provides BMW the flexibility to move production to take advantage of economies of scale.

Procurement helps BMW to effectively manage its plans for innovative products and design. BMW developed a Management of Partner Networks (IMA, 2006), focused on innovation. By establishing partnerships with successful companies such as Apple

and Sirius, it provides BMW the differentiating factor from the rest. It can incorporate other companies' well-received products into its new automobile series. This allows BMW to offer full customization for customers, which fits its niche market target.

Cost drivers help BMW stay profitable while serving the niche target market. BMW's ability to produce multiple vehicles in one facility, shares assets across geographical locations reduces costs of production. R&D and production improvements are implemented across region by region to cover the costs of these investments slowly. This shows BMW's capability to stay ahead of its competitors in terms of strategic flexible planning and outstanding technological edge.

### **How can BMW's position improve?**

#### *Brand Identity*

BMW needs to continue focusing on its differentiation focus strategy in the premium segment to maintain its prestige brand identity and momentum through engaging and communicating with consumers. BMW can invest in market research and understanding consumer preference and behaviors, which will factor into new types of models, products and service offered. Educating consumers on the benefits of sustainable vehicles can help improve BMW's brand value.

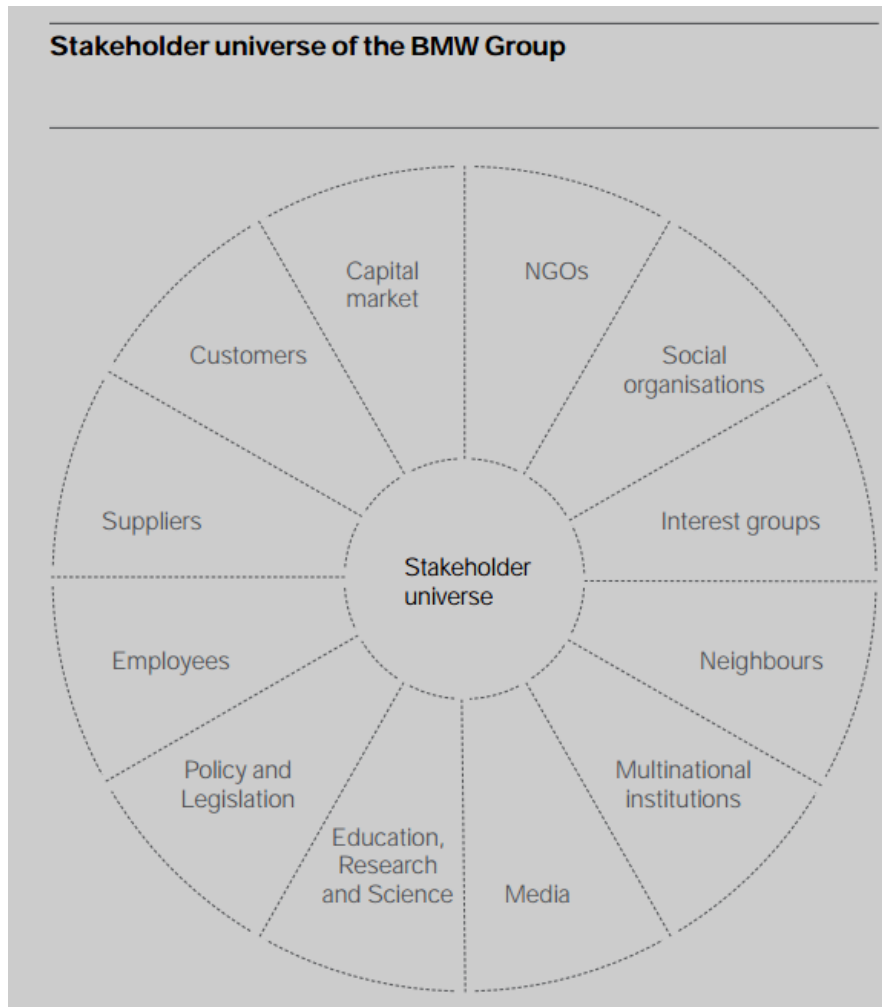
#### *Structure*

BMW should continue to develop its business model through new types of partnerships and collaborations. This include industry collaboration on electricity network, cyber security and communications which share technology and innovations for producing small engines based on low emission technologies. Increasing interaction with government and regulators on high capital investment projects will help BMW receive governments' subsidies and incentives.

#### *Talent Management*

BMW's employees are the most valuable asset for the company and social workforce diversity is a key factor for future success to ensure future competitiveness. This can be accomplished with investment in training targeting right skills and mindsets of key managers and future leaders in order to effectively manage the change toward a sustainable automotive industry. Another strategy is to attract new highly-qualified talents to the company, to help transfer knowledge and continue innovating vehicles and new production methods.

Appendix A



Appendix B

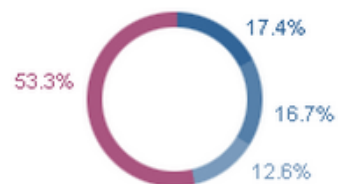
**BMW shares.**

Shareholder structure - common shares.

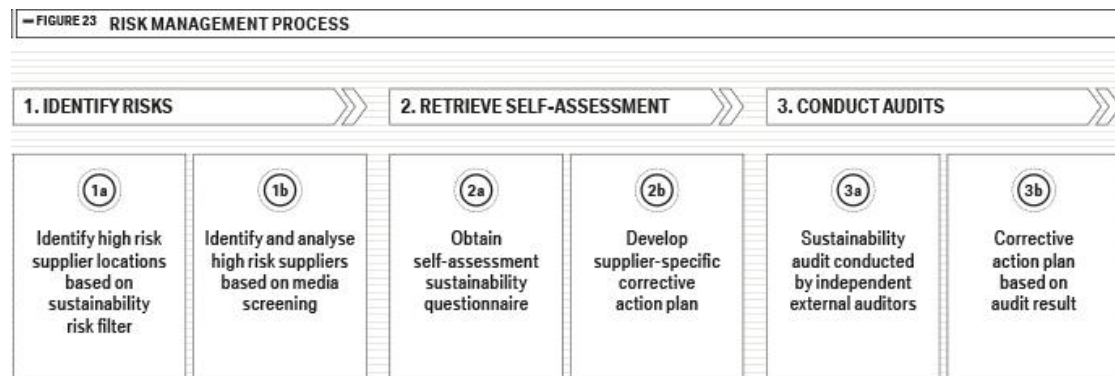
Overview

■ Stefan Quandt <sup>1)</sup>	17.4%
■ Johanna Quandt <sup>1)</sup>	16.7%
■ Susanne Klatten <sup>1)</sup>	12.6%
■ Free Float	53.3%

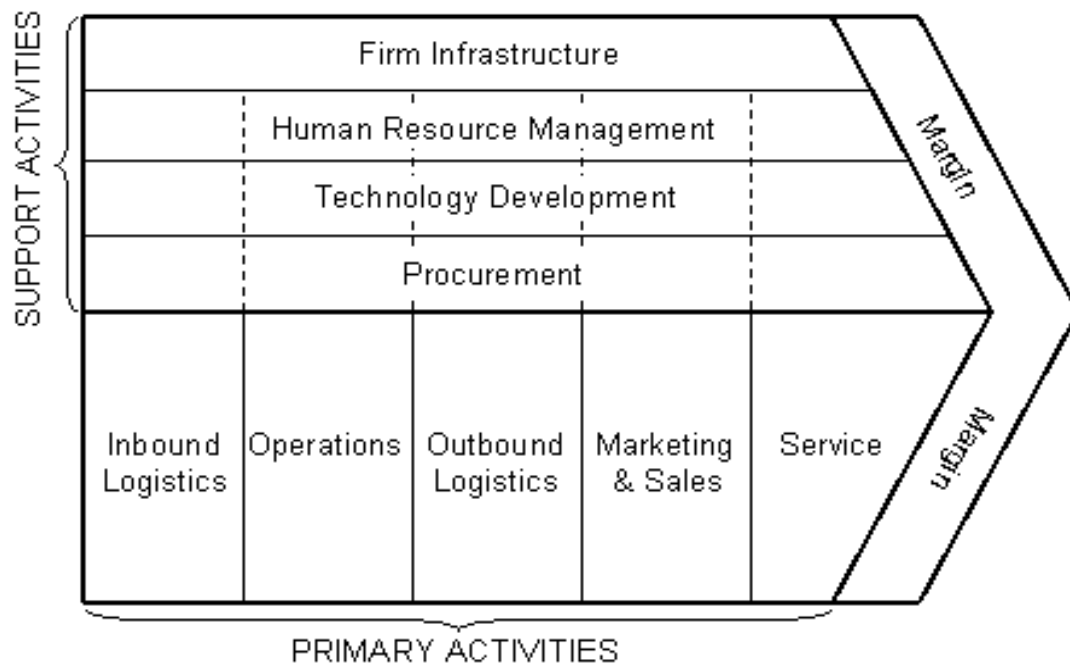
<sup>1)</sup>Directly and indirectly December 2012



Appendix C



Appendix D



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