



School of Economics  
and Commercial Law  
GÖTEBORG UNIVERSITY



## **A Company Analysis**

Department of Business Administration  
Autumn 2006

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Thesis Adviser: Thomas Polesie  
Master Thesis, 10 points

# Abstract

**Master Thesis in Business Administration**  
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**Title:** BMW – A Company Analysis  
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**Background:** The automotive industry is distinguished by a highly competitive market. Thus, the actors on the market struggle with increasing cost of production, development and mature markets. With the aim to increase profit margins and reduce costs, Volkswagen, GM and Ford are some companies, which use the same components in different car models and car brands. These companies have in other words succeeded in synergising research and development effects within the company despite car model and business area. By a contrast, BMW, an individual actor, has yearly shown strong financial results and has retained its market shares. This becomes of interest to study more profoundly, in order to find the factors behind a successful company and a strong brand.

**Purpose:** The purpose of this thesis is to analyse the development of BMW during the past five years. Not only are the financial statements taken into consideration. In addition, a comparison to competitors and the market situation is also made.

**Delimitation and assumptions:** This thesis is delimited to an analysis of BMW between the years 2001-2005. The thesis is based on the assumption that BMW is the most successful automotive manufacturer in the premium segment.

**Methodology:** In the study of BMW both primary and secondary data are used. The primary data consists of an interview and secondary data is collected from annual reports.

**Results and Conclusion:** BMW is a well known and highly valued brand and has high diversity in the product portfolio. BMW possesses high internal competence and the company develop a large part of the car by themselves. The emerging markets in South East Asia, Russia, Eastern Europe and South America have shown evident growth developments. Eminent production, transportation and raw material costs have both dampened margins and affected the buying power of consumers likewise as high oil prices.

**Suggestions for further studies:** What would be of interest are the services that the automobile manufacturers offer beside the cars, the after sales services, like financial services for example. In addition, future research could also include studies of customer loyalty in association to the after sales services.

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# 1. Introduction

## 1.1 Background

The automotive industry is distinguished by a highly competitive market. Thus, the actors on the market struggle with increasing cost of production, development and mature markets. The mature markets are constituted by the Western countries such as the North American and European markets. Hence, the producers face challenges in decision-making to manage continuous business operation and profitability. Among the market leading companies one can recognize different strategies to maintain competitive positions;

Toyota has concentrated on comparatively low-price cars, high quality and efficient production also known as Kaizen: continuous improvement of production. Toyota has in many ways been pointed out as a bench marker in the automotive industry and there are many other companies who try to imitate Toyota's way of working.

With the aim to increase profit margins and reduce costs, Volkswagen, GM and Ford are some companies, which use the same components in different car models and car brands. These companies have in other words succeeded in synergising research and development effects within the company despite car model and business area.

A development that also can be seen is investments in the Asian markets as well as the East European markets. These markets are not considered as mature and many analysts predict that these markets will be in highly expansive states and significantly grand new segments are to be conquered. The development in these markets is also signified by new production allocation of the market leading companies in try to find low-price labour and manufacture costs<sup>1</sup>.

BMW, Bayerische Motoren Werke AG, is one of the leading manufacturers of premium cars in the automotive industry. The company is well known for its distinctive design, high quality and luxurious approach. Despite threats of low-price substitutes and other threats from competitors, BMW has yearly shown strong financial results and has retained its market shares. This becomes of interest to study more profoundly, in order to find the factors behind a successful company and a strong brand. Further, we will also study the future potentials and consistency.<sup>2</sup>

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<sup>1</sup> World Automotive outlook: Pressures Remain, 2005, Economist Intelligence Unit, [www.eiu.com](http://www.eiu.com)

<sup>2</sup> Driven: Inside BMW, the Most Admired Car Company in the World, 2004, David Kiley

## **1.2 Purpose**

The purpose of this thesis is to analyse the development of BMW during the past five years. We aim to make a broader analysis of the company and hold an external point of view. The intention is to find the factors adding value to the company, in terms of products and business advantages. This thesis is to sort out the key factors behind a successful company and a highly valued brand in the automotive industry. What comes to be stressed are mainly two topics also defined as the problems to be solved in this thesis:

- How has BMW during the five past years enabled to defend a competitive position within the automotive industry?
- Will the success continue in the foreseeable future?

## **1.3 Delimitation and Assumptions**

Our purpose is confined to an analysis of BMW between the years 2001-2005. Thus, the information used in this thesis is mainly the financial statements, the annual reports of BMW from the years 2001-2005. In the competitors' analysis, the competitors' annual reports for the same period of time are used. Moreover no adjustments have been made of the figures stated in the annual reports. A delimitation of the competitors analysed is made after sorting out the competitors by premium manufacturing brands. Also delimitation is made to the automotive manufacturing in the competitor analysis. No consideration has been taken to the financial services or other business areas that might occur within the companies. The authors are fully aware of the lack of objectivity since the competitors used are selected based on subjective judgements. Thus, it is not the intention of this thesis to hold the position of an expert.

The thesis is based on the assumption that BMW is the most successful automotive manufacturer in the premium segment.

## 1.5 Hypotheses

- BMW is a successful company that has kept its market shares due to high quality, distinctive design and a luxurious approach.
- BMW has not adjusted their car models after different markets and has therefore obtained a legitimate and solid brand well recognised by the customers irrespective of nationality.
- BMW will continue its success due to unremitting innovation and segment differentiation concentrating on customers with a higher purchasing power.
- BMW will at intervals face difficulties due to a highly volatile raw material market contributing to high costs of production.
- BMW will face a higher competition in the automotive industry due to increased environment awareness among the customers requiring cars with low emissions.

## 1.6 The General Outline of the Thesis

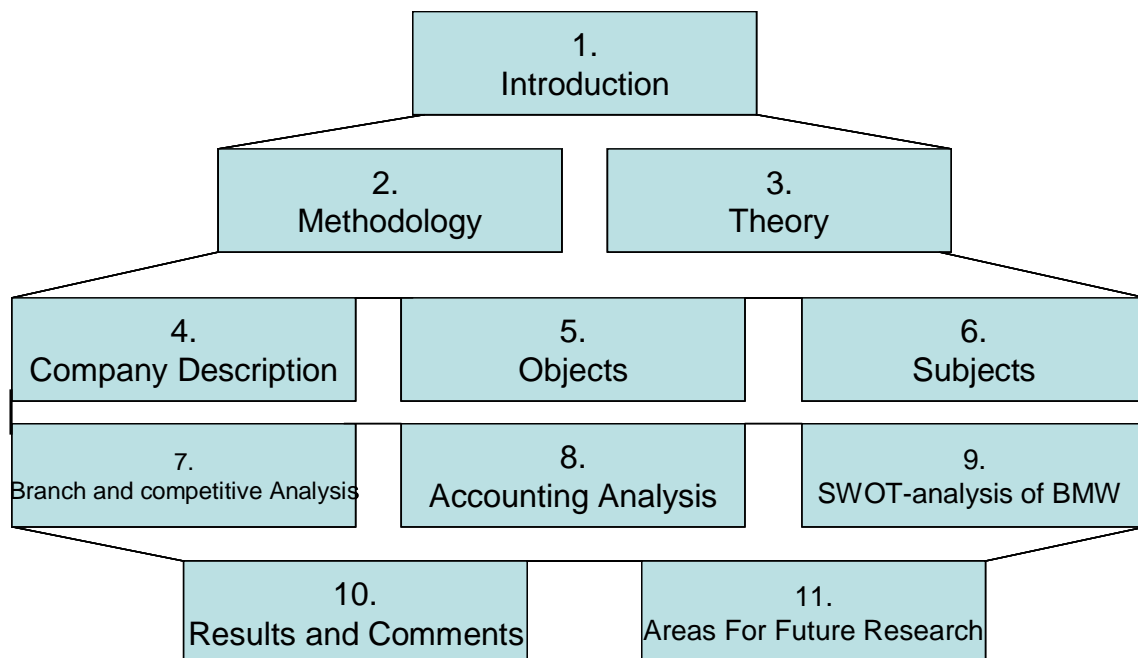


Figure 1 The General Outline of the Thesis

## 2. Methodology

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*This chapter will outline the most important choices of methods for this study. This choice is often a critical factor in the case of writing a thesis. The approach of solving the problems of the thesis is of equal importance as the selection of the material used in aim to achieve a good result.*<sup>3</sup>

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When the authors initially wrote this thesis, the intension was not to take the position of an expert in company valuation. Instead their aim was to investigate the development of a company based upon information and knowledge obtained from previous education and studies. Moreover the underlying company for this valuation is BMW, since the authors aim to analyse a well reputable company with a strong market brand in a highly competitive market.<sup>4</sup>

### 2.1. Choice of Study

A company analysis could be formed as a case study which implies that the investigation is carried out for instance on a smaller group, on an individual or on a company. In a case study one examines a phenomenon in its real environment or in its context where the boundaries between phenomenon and context are not given. Because of this, case studies are often considered especially applicable in evaluations where the objectives often are very complex. In that way one tries to explain, understand or describe large phenomenon, organisations or systems that could not be investigated with another methodology.<sup>5</sup> It is especially appropriate to use case studies when one has the intention to study a process or a change. The purpose is to get a comprehensive picture of what one are studying, aiming at obtaining full information.<sup>6</sup>

### 2.2. Data Collection

An investigation could be based on two types of data, primary and secondary data. The primary data is information that has to be collected. Secondary data is data that is already accessible. In the study of BMW both primary and secondary data are used.<sup>7</sup>

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<sup>3</sup> Holme, Solvang (1991)

<sup>4</sup> Own reflections

<sup>5</sup> Backman, J. (1998)

<sup>6</sup> Holm, Jönsson, (2006), *TOTAL – från olja till energi*

<sup>7</sup> Wiedersheim-Paul & Eriksson (1991)



### **2.2.1. Primary Data**

Primary data could be collected in three different ways, which is interviews by visit, interviews by phone or by questionnaires. Every method has its advantages and disadvantages. In this thesis, focus has been on telephone interviews.

The telephone interviews have the advantages of that they are immediate, the percentage of answers is high and the necessary complementary questions are easy to ask. The disadvantages with telephone interviews are that the questions have to be rather easy to ask, that the affects by the interviewers could influence the respondent and that sensitive questions are not that suitable in this kind of interview situation.<sup>8</sup>

### **2.2.2. Respondents**

The person that the authors interviewed was Matts Carlsson which is one of the most prominent independent automotive industry analysts in Sweden. Matts Carlsson has a PhD in Strategic Organisation at Chalmers University of Technology.

### **2.2.3. Secondary Data**

The literature study is a significant part of this thesis. The foundation of the theoretical frame of reference and the models that are described are a combination of secondary data that mainly are published in literature and articles. With the application of these models on BMW, the authors have also used the annual reports for the concerned companies and also different types of automotive- and business articles. The financial analysis of the company is mainly quantitative, in terms of that the authors have brought together an analysis out of different information.<sup>9</sup>

### **2.2.4. Criticism of the Sources**

It is important to notice that secondary data is more frequently affected by values and purposes from the originator than primary data. A great deal of the information used in the study is obtained from BMW and other automotive manufacturers' websites and annual reports. Moreover, to have a critical perspective towards all information that the companies may have had incentives to affect is also important. With this consciousness it is more likely

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<sup>8</sup> Wiedersheim-Paul & Eriksson (1991)

<sup>9</sup> Own reflections

that the authors will value the information better and by this distinguish facts from subjective opinions.<sup>10</sup>

### **2.3. Practical Procedure**

Initially it is of importance to find information about the chosen company. This information is mainly collected from the annual reports given by BMW between the years 2001-2005. In addition, information is also obtained from the official website. This is also the case in the competitive analysis where the information is taken from the competitors' websites and the annual reports. Summarizing, the internet is the main information source used in this thesis. When over viewing the current and future situation of BMW a SWOT-analysis was used as a base.

To enable an analysis and finding a structure of the information in a proper way, supplementary literature and theory has also been studied. These have consisted in different theories both in the areas of finance, accounting and marketing to extend the foundation that the analysis is based upon.<sup>11</sup>

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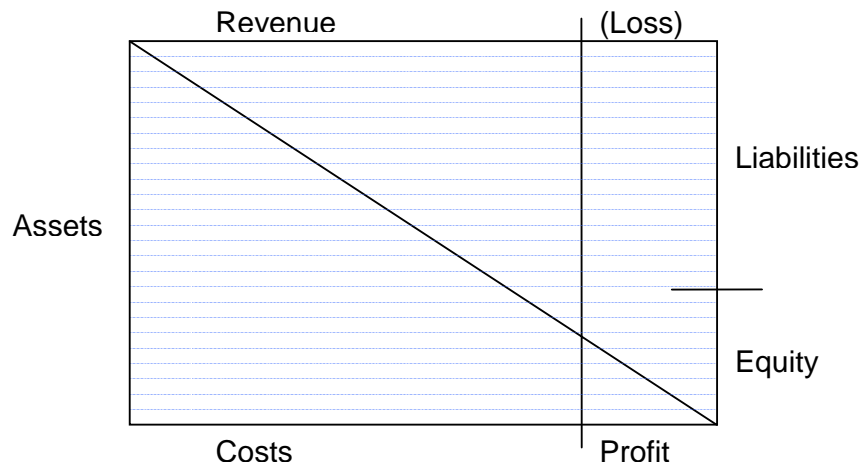
<sup>10</sup> Own reflections

<sup>11</sup> ibid

### 3. Theoretical Framework

*In order to enable an analysis and a good structure of the thesis, different theories are used. In this chapter a presentation of the theories used are described.*

#### 3.1 The Square Model



**Figure 2 The Square Model**

The square model gives a simplified vision of a company. Furthermore the model illustrates a synthesis of the balance sheet and the income statement for a specific period of time. Thus, the influence of human factors and other potential important factors are not taken into consideration when using the square model. When creating a square model the borderlines of the model are formed proportionally after the numbers in the income statement and balance sheet. Hence the financial situation and the relations between the financial measures are visualised. The model is divided into different elements of accounting; assets, liability, equity, costs, income and profits or losses. Thus it enables an analysis of the relationship between the numbers. Moreover one can see whether the company is profitable or not, looking at the horizontal lines of the model. Coming across on the right side of the square model, one can see the relation between liabilities and equity. It becomes apparent how a firm finances their assets, whether the funds are generated through the shareholders or from external leverage. The square model is used when comparing a company's development within a certain period. The model can also be used in a comparison between several companies. Due to the changes in the size of the squares, the visualisation of the square model facilitates an instant overview of the general statement of a company's financial situation. Giving some examples, capital

intensive companies tend to have highly shaped squares and when looking at the development over an interval of years one can see by the shapes of the squares how the company's state changes.<sup>12</sup>

The line dividing the square model into two triangles represents the posts in the financial statements that are related to the company's operation or finance. The operation consists of physical assets that the company uses in the daily business and also the costs assignable to it. How the daily business is financed is represented by the upper area of the line, finance. Finance also describes the revenues of the company that later will turn into reinvestments in the daily operation and the dividend to the owners.<sup>13</sup>

## **3.2 The Assumptions of the Square Model**

### **3.2.1 Type of Model**

The square model is a closed model. This is caused by its well defined boundaries. The boundaries consist of the distinction of the information used, into the different elements used in the model.<sup>14</sup>

### **3.2.2 Simplicity**

There are many models used, giving the user abundant information. Thus a selection of the relevant information has to be made. The aim with the square model is to optimize the financial information and simplify an overview of a company's financial statement. Consequently the information given by the model is simple and available for various users to take part of.<sup>15</sup>

### **3.2.3 A Going Concern**

One of the fundamentals in the accounting regulation is the going concern principle. The principle is also applicable in the square model. The going concern principle implies that a company will continue to operate indefinitely without the intention or threat of liquidation.<sup>16</sup>

### **3.2.4 The Elements**

The square model is a synthesis of the balance sheet and income statement. In the model the elements used are; assets, liability, equity, costs, income and profits or losses.<sup>17</sup>

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<sup>12</sup> Polesie, T. (1995), *Drift & Finans – aspekter på ett företags ekonomi* and Polesie, T (1989), *Att beskriva företags ekonomi*

<sup>13</sup> ibid

<sup>14</sup> ibid

<sup>15</sup> ibid

<sup>16</sup> ibid

### **3.2.5 The Time Aspect**

In aim to allow a comparison between different periods, the same time period has to be used. Generally a 12 months period is applied. Given that normally the time stated and used in the financial reports is 12 months. Indeed, quarterly reports, for instance, could also be applied in comparison of the first quarter. As seen from without the time aspect the square model is both static and dynamic. Static in terms of describing a company's state in a certain moment of time and dynamic when describing the development of the company over time.<sup>18</sup>

### **3.2.6 The Enumerates**

The enumerates used in the square model have to be consistent. All the numbers used are established by monetary measurements. This assumption is attributable to enabling a comparison for a certain company over time or between a company and another. Hence if the figures stated were to be in different currencies, the shape of the squares would be misleading.<sup>19</sup>

### **3.2.7 The Information**

The only information used in the model is the financial reports published by the company. Neither human recourses, information of other potential important factors nor details of what occurs within the company are taken into consideration. Hence an outside perspective is held. The financial reports used are not adjusted. This elevates the importance of the belief that the numbers stated in the reports are accurate and that they reflect the company's state. Otherwise the analysis of the square model becomes futile. Furthermore, the assumption that the company does not present any problem with the generation of cash flow is made. Thus the square model does not take the cash flow into consideration.<sup>20</sup>

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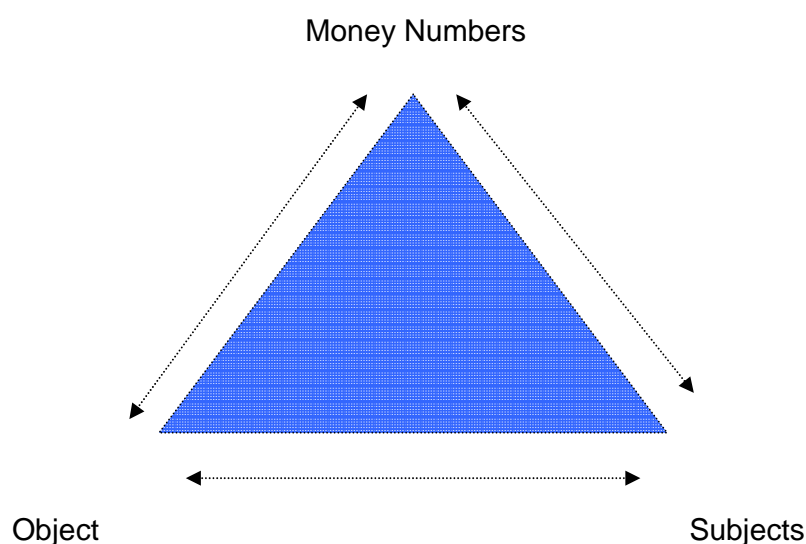
<sup>17</sup> Polesie, T. (1995), *Drift & Finans – aspekter på ett företags ekonomi* and Polesie, T (1989), *Att beskriva företags ekonomi*

<sup>18</sup> ibid

<sup>19</sup> ibid

<sup>20</sup> ibid

## The Triangle Model



**Figure 3 The Triangle Model**

The square model only provides the user with the economic terms. The triangle model, on the other hand, also analyses the influence of the human resources and other important factors. The triangle model is divided into three dimensions, all contributing to an overview of a company.<sup>21</sup>

The money numbers describe revenues, incomes/expenditures, costs, accounts, economical instruments, liabilities and sales. The topic subjects in the triangle are invisible subjects related to human resources like number of employees, motivation, relations between employees creativity etc. All the things in a company that we can touch, such as products, commodities, goods, plants and equipment are explained out of the object within the triangle model.<sup>22</sup>

It is most appropriate to set up the triangle model with the objects as a starting point. Thus the objects in a company always stand in focus, regardless of the size of a company or the branch which the company operates in. The object is to be seen as the foundation enabling the operations of a company. Nonetheless the object of a company is not to be regarded more important than the subjects or the money numbers. The subjects are adjusted to the operation

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<sup>21</sup> Polesie, T. (1995), *Drift & Finans – aspekter på ett företags ekonomi* and Polesie, T (1989), *Att beskriva företags ekonomi*

<sup>22</sup> *ibid*

of the objects. Finally the money numbers describe and control the interaction between objects and subjects.<sup>23</sup>

### **3.3.1 The Assumptions of the Triangle Model**

#### **3.3.2 Type of Model**

The triangle model is an open model. The subjects for the dimensions used are eligible, adjusted for the purpose of the analysis.<sup>24</sup>

#### **3.3.3 Simplicity**

The aim with the square model is to enhance relevant information. Thus a selection is made of three dimensions, all contributing to an overview of a company, both in financial and subjective terms. In comparison from a year to another or a company and another, the triangles can rather simple be overviewed.<sup>25</sup>

#### **3.3.4 A Going Concern**

As in the case of the square model, the going concern principle is also applicable in the triangle model.<sup>26</sup>

#### **3.3.5 The Elements**

The triangle model is a combination of chosen issues within a company. In the model the elements used are; money numbers, subjects and objects.<sup>27</sup>

#### **3.3.6 The Time Aspect**

The elements used in the model have to represent the same period of time. Since the elements are linked to one another, a comparison would be imperfect and misleading if the same period of time was not used.<sup>28</sup>

#### **3.3.7 The Enumerates**

The enumerates used in the triangle model can differ and are eligible depending on the chosen perspective. But to be able to compare a certain company over time or between a company and another, the same enumerates have to be used in the comparison.<sup>29</sup>

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<sup>23</sup> Polesie, T. (1995), *Drift & Finans – aspekter på ett företags ekonomi* and Polesie, T (1989), *Att beskriva företags ekonomi*

<sup>24</sup> ibid

<sup>25</sup> ibid

<sup>26</sup> ibid

<sup>27</sup> ibid

<sup>28</sup> ibid

<sup>29</sup> ibid

### 3.3.8 The Information

The information used in the triangle model is financial reports, human resources, information of other potential important factors and details of what occurs within the company. Hence an internal and in some way an external perspective is held. The information used is selected based on subjective judgements of what is vital and not for the analysis. Focus can also differ between the different elements due to the chosen perspective.<sup>30</sup>

### 3.4 SWOT-Analysis

Strengths	Weaknesses
Opportunities	Threats

**Figure 4 The SWOT-Analysis**

The name SWOT-analysis derives from the abbreviation of Strengths, Weaknesses, Opportunities and Threats. The SWOT-analysis is a tool that identifies these subjects within a company. The purpose with the model is to assess what a company can and cannot do as well as its potential opportunities and threats. The method of the analysis is to divide the information used into internal and external elements.<sup>31</sup>

Strengths are the advantages that a company has. The strengths are both analysed from an internal and an external perspective. For example when setting up the strengths, it could be from the market and the customers' view. In addition, competitors on the market could be used for comparison in sorting out the strengths. Factors that could be determinative are innovative products, location of the business, product differentiation or access to specific resources, to mention a few.<sup>32</sup>

Weaknesses are issues that a company can improve. Also, the weaknesses are analysed both from an internal and an external perspective. The weaknesses sorted out should be used

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<sup>30</sup> Polesie, T. (1995), *Drift & Finans – aspekter på ett företags ekonomi* and Polesie, T (1989), *Att beskriva företags ekonomi*

<sup>31</sup> Doole, I, Lowe, R. (1999), *International Marketing Strategy*

<sup>32</sup> *ibid*



as a foundation for future enhancement. When setting up the weaknesses the competitors can be used as a benchmark within areas they perform things better.<sup>33</sup>

Opportunities are external factors that a company can take advantage of. When finding opportunities a valuable approach is to analyse and elaborate with the strengths and weaknesses to see whether these open up any opportunities. Opportunities could be subjects linked to new trends in population profiles, changes in government policy or changes in technology.<sup>34</sup>

Threats are both external and internal future factors disadvantageous for the company. Finding the threats reveals what needs to be done, and puts problems into perspective. Threats could also, as in the case of opportunities, be subjects of population profiles, changes in government policy or changes in technology. It could for an example also be future competitors or financial problems.<sup>35</sup>

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<sup>33</sup> Doole, I, Lowe, R. (1999), International Marketing Strategy

<sup>34</sup> *ibid*

<sup>35</sup> *ibid*

## 4. Company Description

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*In this chapter the history of BMW as well as a description of the company today will be outlined. The authors have tried to give a description that is as comprehensive as possible.*

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### 4.1 The History of BMW

BMW or Bayerische Motoren Werke G.m.b.H., came into being in 1917. From the very beginning it was founded in 1916 as Bayerische Flugzeugwerke AG and became a stock corporation (Aktiengesellschaft) in 1918. In the nineteenth twentieth BMW started producing cars when they bought the car manufacturer Eisenach.<sup>36</sup>

It was in the 1970's that the foundation for today's cars and model programme were born. A strong and consequent investment strategy in the beginning of 1970 led to strong improvement in sales. This investment started with the all new 5-series model. In the middle of the 1970's BMW had a strong participation in standard racing and they had a lot of victories with the 2002 Turbo. This car was also produced for regular customers and became a real classic among enthusiasts. It was now the famous colour combination that represents the M-models was introduced. The M, which stands for Motorsport is one of the most important brands in the BMW Group today. The M symbol stands for cars with extremely high performance (for instance M3, M5 and M6).<sup>37</sup>

It was also in the 1970s that BMW became more international. One example of this was the overtaking of the assembly factory in South Africa and the strong investments in North America with the establishment of BMW of North America. This was also the case in Europe where BMW established subsidiaries instead of agents that sold their cars. This led to a more uniform picture of the company around the world.<sup>38</sup>

In 1972 BMW's new main office with its "four-cylinder" design was inaugurated. In September this year, the all new 5-series was introduced in the market and three years later the new 3-series were introduced. These two models would come to play a very important role for the BMW growth and made a strong improvement for the sales statistics. The models were designed by the Frenchman Paul Bracqs and this design element is still in use in today's BMW cars. One of its characteristics is the so called kidney grill in the front of the car. In 1976 the all new luxury 6-series coupe was launched. To complete the model

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<sup>36</sup> BMW Group Annual Report 2005

<sup>37</sup> Kiley, D, (2004), *Driven; Inside BMW, the Most Admired Car Company in the World*

<sup>38</sup> *ibid*

programme the company launched a large luxury sedan called the 7-series. All the terms of the series and the sizes of the cars are the same today as the ones used in the 1970's. Thus, one could argue that it was in the 1970's that the foundation of the BMW model programme was made.<sup>39</sup>

In the 1980's BMW started producing stations wagons of the five- and three series. These station wagon models were called Touring. BMW also started the production of the 3-series which was the model manufactured in the new plant in Regensburg. In 1985 the high performance car M5 was introduced. Due to high performance, the model became very important for the image of BMW, and still remains to be. It was also in the 1985 that BMW started with four wheel drive system models and these cars got the designation *iX*, which is the same on today's cars. This was also important to the future trademark. At the same time BMW started the development of new diesel engines which got the designation *tds*.<sup>40</sup> BMW launched the new 7-series in 1986 and the new 5-series in 1988. The 7-series got very high attention from the customers of large luxury cars and the cars won several road tests in car magazines over its biggest rival Mercedes-Benz S-class.<sup>41</sup>

During the 1980's BMW invested large funds on research- and design centres. BMW Technik GmbH centres were founded to create future BMW's. BMW M1 was created here and begun to be produced in 1989. This was a little sports car with very futuristic design. The successes of this car never occurred and the productions stopped in 1991. Nevertheless this car was the foundation of the famous Z3, a little roadster and a large success for BMW, introduced some years later, in 1995. This car got large attention when James Bond drove it in the Golden Eye movie.<sup>42</sup>

The 1990's begun with a lot of new directions for BMW. The globalisation that started in 1970's was more evident during the 1990's, especially with a lot of investments in the UK. BMW started the planning of production in the US to meet the large demand in the North American market. In 1992 the building of a new factory plant in Spartanburg in South Carolina started and the first produced car leaved the plant in 1994. 1994 became an historical year. This was the year when BMW's total production was bigger than that of the competitor

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<sup>39</sup> Kiley, D, (2004), Driven; Inside BMW, the Most Admired Car Company in the World

<sup>40</sup> *ibid*

<sup>41</sup> *ibid*

<sup>42</sup> *ibid*

Mercedes-Benz. It was also the year when BMW bought the British car manufacturer Rover. This turned out to be a great loss. BMW sold the company in 2000.<sup>43</sup>

To enhance the production BMW started to seek new segments. In the end of 1990's there was a great demand of large so called Sports Utility Vehicle (SUV). Mercedes-Benz was already established on the market with its ML-series. To compete in this market, BMW introduced the X5-series, in 1999, that at initially was thought to satisfy the demand on the North American market. But this American produced SUV had also a lot of success on the European market. Some years later the X5 came out in a smaller version called X3 which was based on the 3-series.<sup>44</sup>

In 2001 BMW inaugurated the new plant in Hams Hall in the UK. This plant stood for a large part of the engine production. The same year BMW introduced the new exclusive handmade roadster called Z8. This car was famous from the James Bond movie "Tomorrow Never Dies" and became a classic. BMW also started its participation in the formula one series and had cooperation with the Williams Team where BMW made the engines.<sup>45</sup>

During 2002 a lot of large changes could be denoted in the design of BMW. The new 7-series was launched. This car was designed by the new chief designer Chris Bangle. His design would be implemented in all new cars that would be presented during the coming years. Chris Bangle made a new interpretation of the classic BMW look and got a lot of critique. Some traditional BMW owners were upset and demanded resignation of the new designer. Today this design is fully applied on all the BMWs. The new 7-series had a lot of new techniques that had never been observed before in a common vehicle, like the I-drive, an onboard computer. Four years after the introduction all the models in the BMW programme now have this new technique and a lot of the competitors have adapted common systems.<sup>46</sup>

In 2003 the first BMW produced Rolls-Royce was presented to the market. During 2004 and in 2005 the new 5-series and the 3-series were also introduced. To widen the model programme further BMW developed a smaller car called 1-series which was introduced during 2004. Even these cars had the new design and a lot of the new techniques that was presented in the new 7-series. The large luxury coupe and convertible called 6-series had première during 2004.<sup>47</sup>

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<sup>43</sup> Kiley, D, (2004), *Driven; Inside BMW, the Most Admired Car Company in the World*

<sup>44</sup> ibid

<sup>45</sup> ibid

<sup>46</sup> ibid

<sup>47</sup> ibid

2004 was a record year in production for BMW. This year BMW produced over one million cars. The production in 2004 were 1059 978 units. This was to be seen against 164 000 units that were produced per year during the 1960's. During 2005 BMW started producing cars in its new plant in Leipzig.<sup>48</sup>

## 4.2 BMW Today

BMW is arguably today one of the strongest and most admired car manufacturer in the premium segment in the world. Its financial performance is very strong compared to many competitors and the products raises loyalty among customers. BMW is successfully ranked among the best car manufactures in majority of satisfied customer indexes around the world. Today when many large car manufacturer struggles with falling market shares, profits and sales, BMW just continues its growth and expansion its production.<sup>49</sup>

BMW group is today one of the ten largest car manufacturer in the world and possesses three very strong brands, BMW, Mini and Rolls-Royce. These three are regarded as some of the absolute strongest brands in the world. The BMW group has also a strong market position in the motorcycle sector and operates successfully in the area of financial services.<sup>50</sup>

In 2005 BMW sold 1.1122.308 cars of BMW, 200.119 of Mini and 692 Rolls-Royce. BMW is today producing cars that are in several kinds of segments. The company is also a large producer of motorbikes. Common for all BMW products is high quality and high purchase prices.<sup>51</sup>

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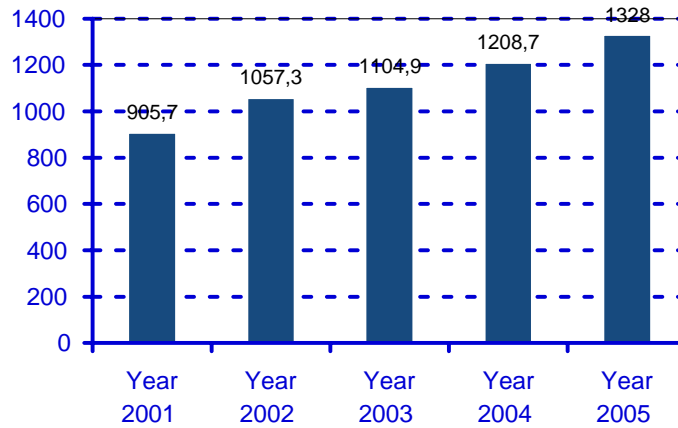
<sup>48</sup> Kiley, D (2004), *Driven; Inside BMW, the Most Admired Car Company in the World*

<sup>49</sup> *ibid*

<sup>50</sup> [www.interbrand.com](http://www.interbrand.com)

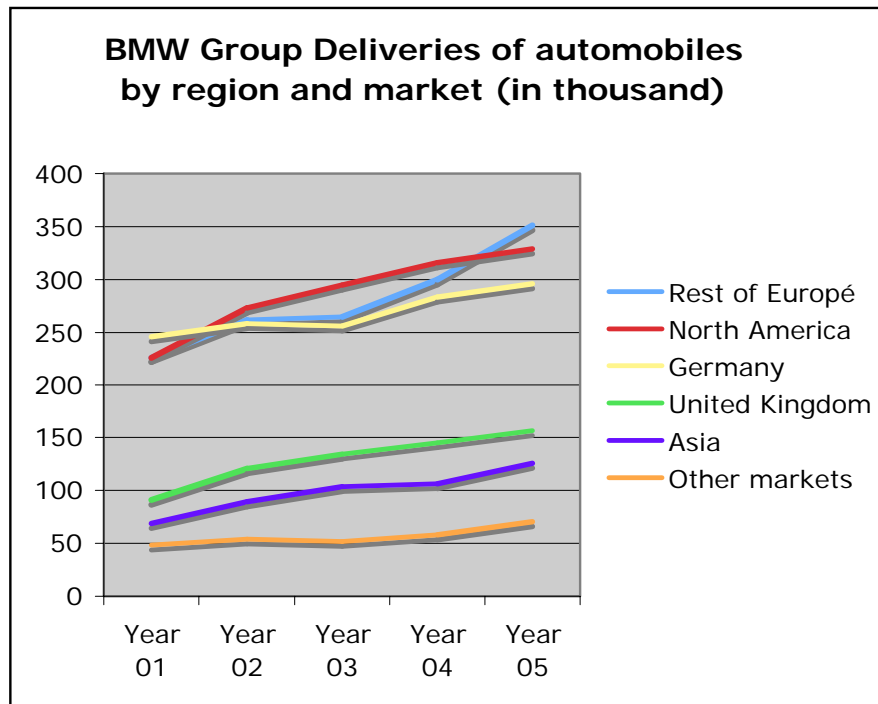
<sup>51</sup> BMW Group Annual Report 2005

**BMW Group Deliveries of automobiles (in thousand)**



**Figure 5 BMW Group Deliveries of Automobiles**

As shown in the diagram above, BMW has had a remarkable sales improvement during the latest five years. The diagram shows the sale for all three brands in BMW Group. The BMW brand cars increased 2005 by 10.1 percent compared with 2004. MINI brand cars were sold with an increase by 8.7 in the same period. In addition the Rolls-Royce sales increased more modest by 0.5 percent.



**Figure 6 BMW Group Deliveries by Region and Market**

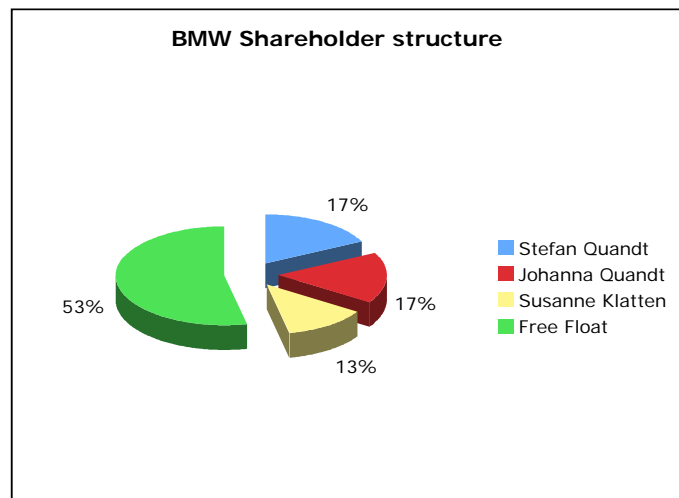
The diagram, figure six, illustrates how the sales have developed during the past five years divided into the largest regions and markets. As can be seen every market has increased its sales figures during this five year period.<sup>52</sup>

### 4.3 Corporate Strategy

*“Identifying potential and encouraging growth. Knowing what we represent. Recognising where our strengths lie and making the best use of every opportunity. Following a clear strategy. Goals we have attained are in essence the point of departure for new challenges.”*

The above quoted strategy of BMW indicates in what way the business is run. In the annual reports different events point out how the strategy in many ways is carried out. For instance, investments in new merging market have been made throughout the years. Furthermore, BMW has a clearly defined segment in which they produce cars, the premium segment. In combination with the strong brand, the product segmentation makes up clear definition of what the company stands for.<sup>53</sup>

### 4.4 Owner Structure



**Figure 7 BMW Shareholder Structure**

Nearly half of the shares of the BMW Group are possessed by the German family Quandt. Johanna Quandt owner of 17 percent is the mother of the two children, Stefan Quandt, who owns 17 percent and Susanne Klatten, who possesses 13 percent.<sup>54</sup>

<sup>52</sup> BMW Group Annual Report 2005

<sup>53</sup> [www.bmwgroup.com](http://www.bmwgroup.com)

<sup>54</sup> ibid

## 4.5 Collaborations

BMW Group and PSA Group (Peugeot and Citroën) have developed a new petrol engine family in a joint cooperation project. These engines are intended to be used in future versions of MINI cars.<sup>55</sup> This is the only significant collaboration that BMW is involved in according to Matts Carlsson. In addition, he claims that BMW could handle the future very well without any collaboration as long as the brand is as strong as it is today. With the Rover affair in mind he thinks that BMW will be fairly reluctant to strategic alliances and collaborations with another automotive manufacturer.<sup>56</sup> Another collaboration, in aim to develop hybrid cars, is established with GM and Daimler-Chrysler.<sup>57</sup>

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<sup>55</sup> BMW Group Annual Report 2005

<sup>56</sup> See Appendix 1, Interview Matts Carlsson

<sup>57</sup> [www.automotivesweden.se](http://www.automotivesweden.se)

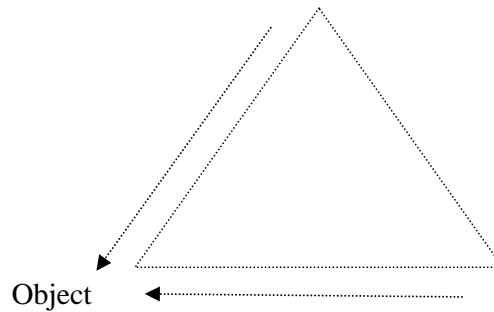


## 5. The Triangle Analysis - Objects

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*The chosen objects to be described of BMW, are their automobile- and motorcycle production. Thus the difference between objects produced and delivered is explained over the years 2001-2006. Furthermore the overall automobile industry is described for more profound understanding.*

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### 5.1 The Products

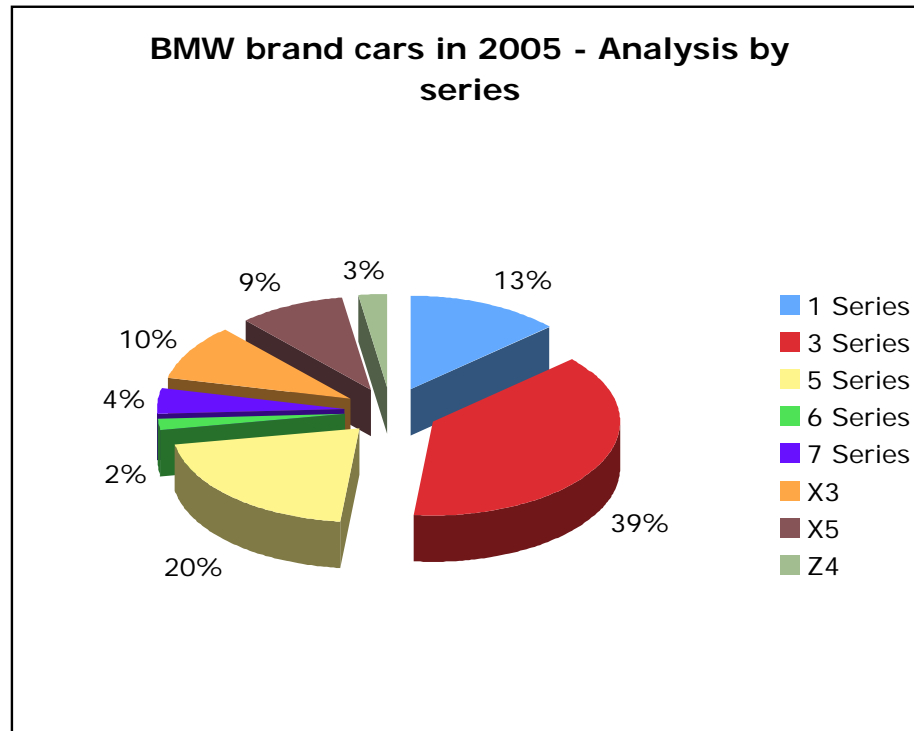
BMW's car programme includes sedans, coupes, convertibles and sport wagons (Touring) in the 1 series, 3 series, 5 series, 6 series and 7 series. Other models beside these are the SUVs called X3 and X5, and a roadster called Z4. BMW also offers M-models of 3, 5, Z4 and 6 series. The M stands for Motorsport, which are high performance cars equal to race cars.

In addition to its BMW automobiles, the company's operations include motorcycles K 1200 GT, R 1200 GS, and R 1150 R models. BMW's motorcycle division also offers a line of motorcycling apparel such as leather suits, gloves, and boots. The diagram below illustrates how the production is shared among the different car models.<sup>58</sup>

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<sup>58</sup> [www.bmw.com](http://www.bmw.com)

Figure 8 BMW Brand Cars in 2005



The 1-series is the smallest car in the product portfolio of BMW and was introduced in autumn 2004. The car can be described as a car in the premium small car segment with high technology. With this car BMW could for the first time offer a car in this size. The competitors to this car are Audi A3 and Mercedes-Benz A-Class.<sup>59</sup>

The 3-series is a car in the segment for premium middle class cars. This car was launched in a new version in the end of 2004. This car is the world's best selling model series in this segment with a production of 434.342 cars during 2005. The 3-series is available in sedan, sport-coupe and station wagon models. The competitors to this car are foremost Audi A4 and Mercedes-Benz C-Class.<sup>60</sup>

The 5-series is a larger premium car that is available in sedan and station wagon models. Like the 3-series, the 5-series is the best selling car in this segment with a production of 228.389 cars in 2005. The competitors to this car are mainly Audi A6 and Mercedes-Benz E-Class.<sup>61</sup>

<sup>59</sup> www.bmweducation.co.uk

<sup>60</sup> ibid

<sup>61</sup> ibid

The 7-series is a large exclusive sedan that was introduced in the market during 2002. This car had a production of 50.062 cars during 2005. The main competitors to the 7-series are Audi A8 and Mercedes S-Class.<sup>62</sup>

The 6-series is a large exclusive sport-coupe that is based on the 5-series. This car had a production of 23.340 cars in 2005. The 6-series is also available in a convertible version. The outmost competitive cars are Mercedes SL and Porsche 911.<sup>63</sup>

The X3 and X5 are exclusive SUVs in different sizes. These cars were produced in 110.719 respectively 101.537 cars during 2005. During 2007 a new model will replace the old X5. Competitors to these cars are Mercedes ML, Porsche Cayenne and Audi Q7.<sup>64</sup>

The Z4 roadster is a smaller roadster that was produced in 28.808 cars during 2005. This is the only car in the BMW model programme that has lowered sales in comparison to the previous year. It fell in sales by 25.1 percent in 2005. Competitors to this car are Audi TT, Porsche Cayman and Mercedes SLK.<sup>65</sup>

BMW Financial Services is also an important business segment to the company. Financial Services is a finance and insurance company for BMWs. In 2005 were 41.1 percent of the sold BMWs leased or financed by BMW Financial Services. This implies a business volume of Euro 40.428 million in 2005.<sup>66</sup>

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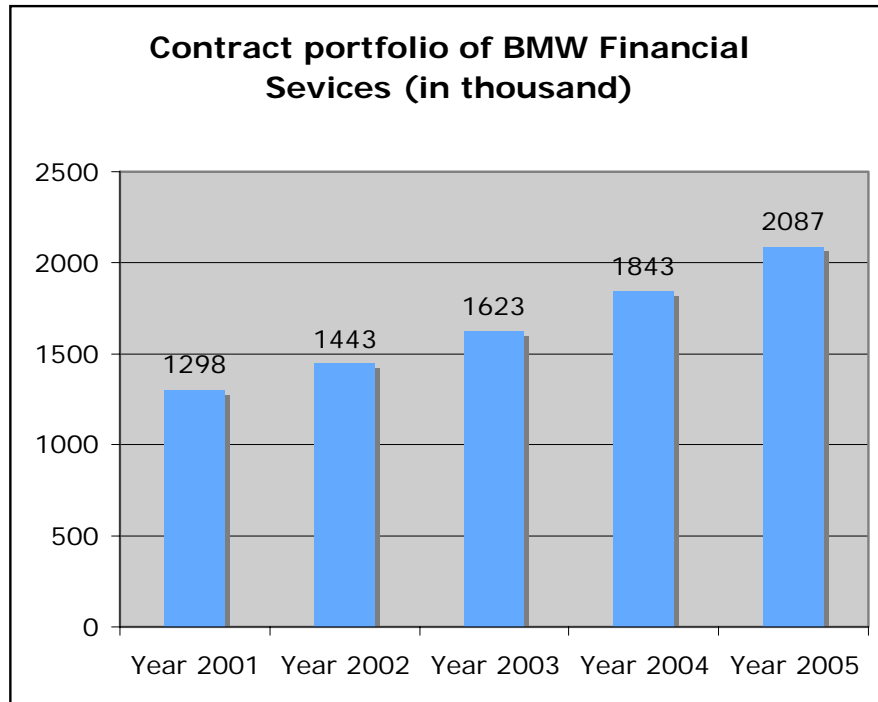
<sup>62</sup> [www.bmweducation.co.uk](http://www.bmweducation.co.uk)

<sup>63</sup> *ibid*

<sup>64</sup> *ibid*

<sup>65</sup> *ibid*

<sup>66</sup> BMW Group Annual Report 2005



**Figure 9 Contract Portfolio of BMW Financial Services**

2005 was the first year that the total lease and finance contract exceeded 2 millions. This was an increase by 13.3 percent compared to 2004. The finance and lease products have been favoured by the low interest rates, which has been the case in recent years.<sup>67</sup>

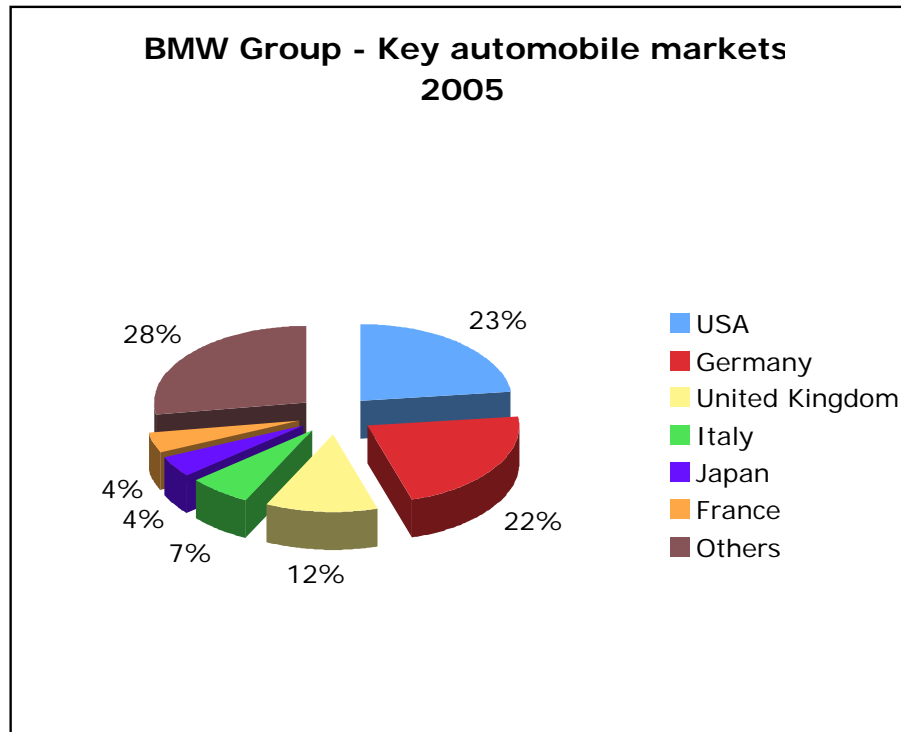
### 5.1.1 New Models

According to the German car magazine *AUTO MOTOR SPORT* BMW has many new models under development. One of those is a third SUV that will be called X6. This car will probably be launched in 2008 and will be a competitor to Mercedes-Benz R-Class. In addition a smaller convertible will also be released as well as a smaller coupé. These cars will be based on the smaller 1-series. It is also likely that a competitor to Mercedes-Benz CLS will be launched in a couple of years.<sup>68</sup>

<sup>67</sup> BMW Group Annual Report 2005

<sup>68</sup> [www.auto-motor-und-sport.de](http://www.auto-motor-und-sport.de)

## 5.2 The Markets



**Figure 10 BMW Group - Key Automobile Markets 2005**

As shown in the diagram, USA is the largest market for BMW. The company sold 328.952 cars in 2005 where 307.395 cars were BMWs. That is an increase by 4.1 percent compared to the previous year. That also makes the BMW the most successful European premium car manufacturer in the US market.<sup>69</sup>

The European market was even more successful for BMW during 2005. BMW Group sold 802.891 cars, an increase of entire 10.2 percent. The largest market in Europe is the German market with 295.885 cars sold during 2005. The most impressive market growth for BMW Group was the Hungarian market with an increase of 61.8 percent to 1.514 cars.<sup>70</sup>

Worth to notice is that the sales in the Asian market was 125.747 cars for 2005. Japan is the largest market in Asia with 58.811 sold cars in 2005.<sup>71</sup>

<sup>69</sup> BMW Group Annual Report 2005

<sup>70</sup> ibid

<sup>71</sup> ibid

### 5.3 Future

To counteract the depletion of oil reserves and reduce carbon dioxide in the atmosphere, BMW has started to develop what they call BMW CleanEnergy. BMW CleanEnergy uses the most primary of all natural cycles: the water cycle. This cycle is the central concept of BMW CleanEnergy. Liquid hydrogen is generated from energy and water. In the engines of BMW hydrogen vehicles, the hydrogen combusts with oxygen again, and returns to water. The only problem today is to develop large amount of hydrogen. This is a very energy demanding process.<sup>72</sup> Another effort to create environmental friendly cars is the collaboration with GM and Daimler-Chrysler. The collaboration is initiated in aim to fasten the development of hybrid cars.<sup>73</sup>

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<sup>72</sup> [www.bmwgroup.com/cleanenergy](http://www.bmwgroup.com/cleanenergy)

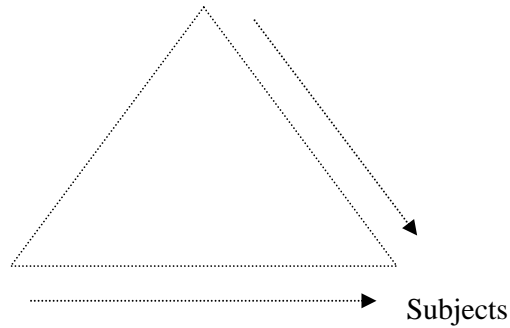
<sup>73</sup> [www.automotivesweden.se](http://www.automotivesweden.se)

## 6. The Triangle Analysis - Subjects

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*In this chapter a description will be given of the subjects of BMW, the employees. A review from year 2001-2006 is made over the workforce and the personnel costs. Moreover the overall causes contributing to the development are sorted out.*

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The workforce at BMW has increased significantly between the years 2001-2004 and has then become more or less unchanged looking at the years 2004 and 2005. Between the years 2001-2003 the growth in the workforce was roughly 3-4 percent. In the years 2004 and 2005 the increase was only approximately 1 percent. Correlated to the development of the workforce are the personnel costs. The increase of the personnel costs per employee was in the region of 3-4 percent between the years 2001-2003. A decrease by approximately 0.05 percent was to be found for the year 2004 and for the year 2005 a growth by 2.7 percent was denoted.<sup>74</sup>

In the financial reports the development of BMW is described whereas the factors of the increase are to be found. Due to expansions, mostly in the production, sales and development areas, 4.991 new jobs were created year 2001. The increase of roughly 3.700 in the workforce year 2002, was attributable to the continuing development of the product and market offensive as in the case of year 2001. In year 2003 the workforce grew with about 2.900, mostly because of recruitment to the new BMW plant in Leipzig. In year 2004 BMW had a slight difference in the workforce due to the continuous recruitment to the Leipzig plant. Finally the workforce remained more or less unchanged in year 2005.<sup>75</sup>

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<sup>74</sup> See attachment 1

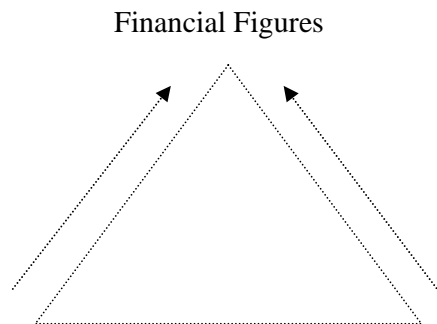
<sup>75</sup> See attachment 1 and BMW Group Annual Report 2001-2005

## 7. The Triangle Analysis – Financial Figures

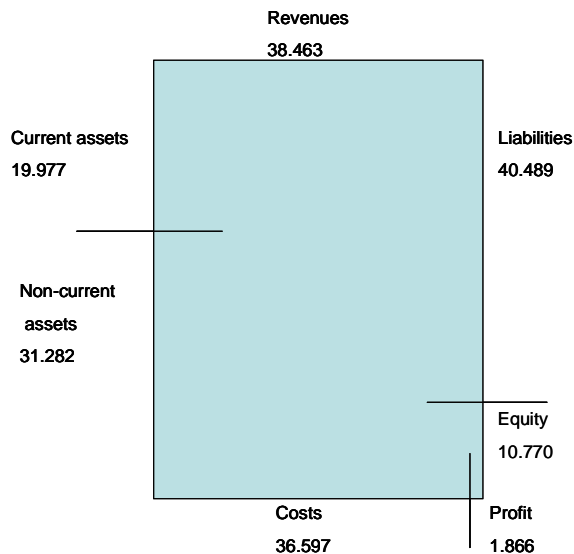
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*The financial statement; the balance sheets and the income statements between the years 2001-2006, are described in this chapter. The number used are the ones given by BMW in their annual reports, no adjustments are made.*

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### 7.1 Year 2001



**Figure 11 Metrics for Year 2001 in euro million**

During the previous year, 2000, BMW had suffered losses due to the Rover Automobiles segment. The loss of the acquisition of Rover was entered in the books in two turns, in year 2000 and 2001. Despite that the year 2001 was by far the most successful year in the history of the BMW Group. 2001 was a year signified by BMW focusing on the premium segments of the automobile market and the expenditure for ongoing product and market offensive was



at a high level in comparison to previous years. With the new 3 Series compact, the M3 convertible, the BMW 3 Series model update and the X5 4.6is successfully introduced to the worldwide market along with the BMW 7 Series launched in Europe and the sales of MINI Cooper, the BMW Group achieved record earnings. The profit from ordinary activities was euro 3.242 million, 59.5 percent higher than the previous best result recorded in 2000.<sup>76</sup>

Looking further into the income statement, revenues rose by 3.3 percent, in comparison to previous year, to euro 38.463 million for the BMW Group. The revenues for the BMW Automobile segment rose by 13.1 percent, compared to year 2000, to euro 33.542 million. Furthermore the BMW Motorcycles segment was also signified by an increase in revenues by 14.1 percent to euro 1.059 million. One of the segments not following the positive development of increasing revenues, was the Financial Service segment where the revenues dropped below previous years figures by 12.4 percent to euro 7.514 million. This negative development was a result of the the restructuring of the leasing business in Germany.<sup>77</sup>

Examining the markets contributing to the raise in revenues, one found Germany, the largest market for BMW in terms of sales volume. Volume growth could also be seen in almost all the deliveries to the rest of the western European markets, especially in Great Britain. Also in the USA, BMW had a significant increase in deliveries, following the development of the past ten years on that market. In the next ten years, Asia was the next market where this development in increase was expected. In China and the newly incorporated sales companies in Indonesia and the Philippines also contributed to the high earnings. Overall investments and expansions were made in the sales organisations of BMW. For instance MINI started their own dealer network and e-business was also an important factor in the customer services and online ordering process.<sup>78</sup>

Cost of sales, euro 28.727 million, were almost unchanged in comparison to year 2000. However in year 2000, cost of sales included impairment losses of production facilities in Great Britain which were not included in the figures for year 2001. Thus, after adjusting cost of sales for the costs relating to the Rover Automobiles segment, this post in the income statement increased by 13.4 percent. Also the sales and administrative costs were unchanged compared to previous year, euro 4.647 million. When adjusting this post for the Rover

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<sup>76</sup> BMW Group Annual report 2001

<sup>77</sup> ibid

<sup>78</sup> ibid

Automobiles segment too, an increase of 15.5 percent is set due to business expansion and the launches of the MINI and BMW 7 series.<sup>79</sup>

In 2001 the BMW Group invested euro 2.851 million in property, plant and equipment and intangible assets. Compared to the industry average, the investment ratio of 7.4 percent of group revenues was high. Euro 665 million in development costs were recognised as assets. The total capital expenditure of euro 3.516 million was funded fully out of the Group's cash flow. This confirmed the strategy of BMW, to maintain their image in having an advantage in technology and innovation. The investments also enabled the implementation of the product and market offensive and expanding production capacities and market coverage. Furthermore the increase in research and development costs was markedly greater than the increase in the revenues. This is also an indication of the product offensive, a part of the strategy of BMW.<sup>80</sup>

The balance sheet total of the Group increased by 3.9 percent to euro 51.3 billion. When dividing the increase into the different posts in the balance sheet contributing to the change, one can see on the asset side of the balance sheet; non-current assets, inventories due to general growth of the business and other receivables due to higher level of receivables from non-consolidated subsidiaries and to the increase in the fair values of derivative financial instruments. On the equities and liabilities side, mainly an increase in equity because of the Group net profit and the issue of employee shares and debt due to an increase in sales financing business.<sup>81</sup>

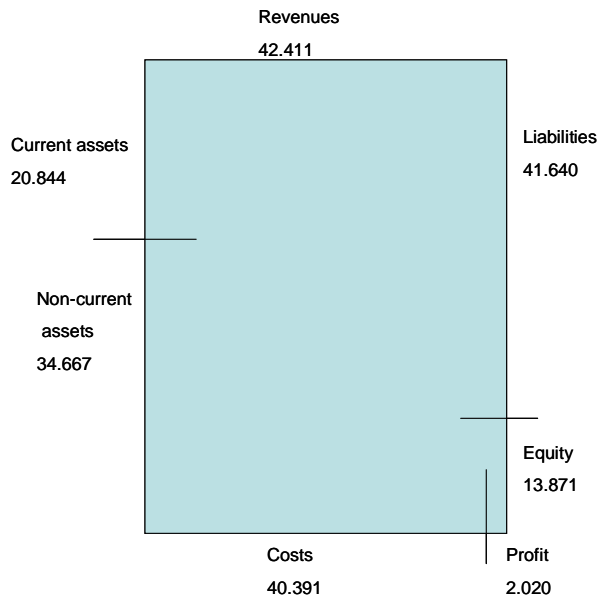
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<sup>79</sup> BMW Group Annual report 2001

<sup>80</sup> *ibid*

<sup>81</sup> *ibid*

## 7.2 Year 2002



**Figure 12 Metrics for Year 2002 in euro million**

The positive development of BMW continued year 2002 where the demand for the cars of the BMW Group outpaced demand in the market as a whole as well as in the premium segments. In nearly all of the main automobile markets, the BMW Group was able to increase its market share. Revenues in all the segments were increased mainly because of the sales of the BMW 3 Series with five versions in all. Also the MINI brand made great results for the premium car in the small car sector. For the BMW Group, the profit from ordinary activities was euro 3.297 million, 1.7 percent higher than the result recorded in 2001.<sup>82</sup>

The revenues year 2002, were euro 42.282 million, an increase by 9.9 percent for the BMW Group. Divided into the segments; the revenues for the BMW Automobiles Group segment was euro 38.179 million, an increase by 13.8 percent and the revenues of BMW Motorcycles segment rose by 6.7 percent, recorded at euro 1.130 million. The results of the performance of the MINI in many ways contributed to the positive revenues of the BMW Automobile Group. The Financial Services segment this year followed the other segments in the positive development of increasing revenues with a growth by 9.3 percent, achieving euro 8.213 million.<sup>83</sup>

<sup>82</sup> BMW Group Annual report 2002

<sup>83</sup> ibid

Germany remained the market where the BMW Group had its largest sales volume. In this market car sales grew but in the total the BMW Group delivered slightly less BMW brand cars. Looking at the Western European countries, Great Britain, Italy, Spain and France contributed to the strong increase in the sales performance of the Group. Despite negative trends on the East European markets the BMW Group achieved growth rates in the region. In the North American market the BMW Group had its most successful year in comparison to previous years. In the USA the volumes of cars sold rose by one fifth and in Canada the sales growth was approximately one third compared to year 2001. The positive development could also be seen in the Asia and Pacific region. A significant increase could be recorded in South Korea where the growth rate was at 87.7 percent and also in the growing Chinese markets that rose by 41.4 percent followed by the Japanese market where the MINI brand contributed to strong increase in sales.<sup>84</sup>

Cost of sales increased by 9.8 percent due to warranty and goodwill expenses. However the increase in cost of sales was less than the development of revenues resulting in an improved gross profit by 10.3 percent. The ratio of sales and administrative costs through revenues also decreased to 11.6 percent. The total amount resulted in an increase by 5.5 percent in comparison to the previous year.<sup>85</sup>

Glancing at the investments made during the year, a total of euro 4.042 million was recorded as capital expenditure. Euro 3.184 million was invested in property, plant and equipment and intangible assets and euro 858 million of expenditure for development was recognised as assets. The capital expenditures continued, to also this year, be funded through the cash flow of the Group. According to the financial statement in the annual report, the increasing investment rate was yet another approach to create a foundation for future growth in upcoming years. The development of the growing investment rate was intended to be continued for the following year as well. The objects of the investments were presented by production- and manufacturing plants and technological development.<sup>86</sup>

An increase by 8.3 percent was denoted of the balance sheet total, of euro 55.5 billion, of the Group by comparison to year 2001. This increased derived from amplification on the asset side of the balance sheet of the property, plant and equipment, inventories, receivables from sales financing and other receivables. In addition equity, provisions, liabilities from deposit-taking and commercial papers as well as deferred taxes, also contributed to the increase.

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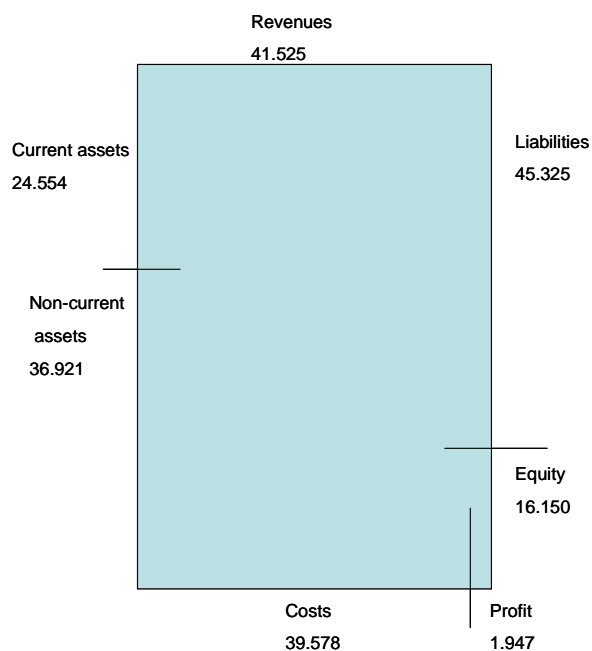
<sup>84</sup> BMW Group Annual report 2002

<sup>85</sup> *ibid*

<sup>86</sup> *ibid*

When adjusting the calculations for the currency fluctuations, the balance sheet total should have been recorded with an addition by around euro 3.1 billion.<sup>87</sup>

### 7.3 Year 2003



**Figure 13 Metrics for Year 2003 in euro million**

During the year 2003 the situation for the automobile markets was rather difficult. This was mainly caused by economic conditions as a result of low growth rates and political tensions. In specific, the weakness of US dollar against the euro had a relatively strong impact on the revenues reported by the Group since it is the currency with which the BMW Group does its business. However the Group sold a record number of cars and motorcycles. Looking back at previous years, year 2003 was the first year for the BMW Group to offer so many new models in one year. One of the cars to be launched was the new Rolls-Royce Phantom. As a part of BMW Group's market offensive, an expansion of the international sales network was made to ensure direct market responsibility in all countries belonging to the single European market. The Group's profit decreased with 2.8 percent in comparison to previous year to euro 3.205 million.<sup>88</sup>

<sup>87</sup> BMW Group Annual report 2003

<sup>88</sup> ibid

The exchange rate changes resulted in a decrease in the Group's revenues by 2.1 percent to euro 41.525 million. If the revenues were to be adjusted for the exchange rates effects the sales revenues would have increased by 4.2 percent. In the segments the exchange rate had a greater effect on some than others. The revenue for the Automobiles segment, for instance, increased by 0.4 percent to euro 38.317 million. On the contrary both the Motorcycles segment and the Financial services segment fell by 6.6 percent to euro 1.055 million respectively by 9.1 percent to euro 7.582 million.<sup>89</sup>

A diverge in the trend could be seen in the USA market as it became the Group's strongest market ever. Germany who previously had held that position, showed a slight decrease in units sold. In Great Britain, Finland, Spain and Italy there was a significant positive outcome of the units sold as well as the overall figures for the Europe markets. In the Asia and Pacific region the world could follow the expansion of the markets, in particular the Chinese market. This development could also be seen in the sales of the Group's. The most remarkable volume growth derived from China, Hong Kong and Taiwan, where an increase of 75 percent was recorded.<sup>90</sup>

A reduction in cost of sales, by approximately 2 percent, could be seen for the year 2003. However, the decrease in revenues was greater than the decrease in revenues which resulted in a reduced gross profit. Furthermore, the sales and administrative costs increased by 1.3 percent due to the extension of the business.<sup>91</sup>

The investments in intangible assets and property, plant and equipment summed up to an amount of euro 3.249 million. In addition euro 996 million, of the development costs, were recognised as assets. Thus the capital expenditure totally amounted to euro 4.245 million. A significant factor contributing to the capital expenditure was the new BMW plant in Leipzig built to increase production capacity. Also investments were made in the expansion of the internal and external production network and of the sales network.<sup>92</sup>

The balance sheet total of the Group amounted up to euro 61.475 million. This represented an increase of 10.7 percent. The increased level of receivables from sales financing, property, plant and equipment and other receivables mainly contributed to the increase on the asset side of the balance sheet. Changes in equity, other provisions and deferred taxes were mainly the factors contributing to an increase on the equity and liabilities side of the balance sheet. If one

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<sup>89</sup> BMW Group Annual report 2003

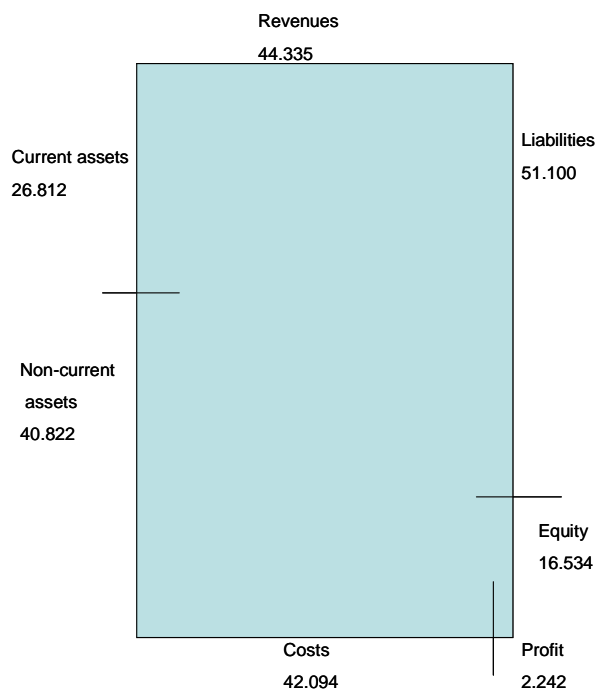
<sup>90</sup> *ibid*

<sup>91</sup> *ibid*

<sup>92</sup> *ibid*

were to consider adjustments for the currency fluctuation, mainly in the US dollar exchange rate, the balance sheet total would have risen by 16.2 percent.<sup>93</sup>

## 7.4 Year 2004



**Figure 14 Metrics for Year 2004 in euro million**

The negative currency impact continued year 2004. Despite increase and record in sales volume, revenues in euro terms were below the previous year in the USA. Furthermore the global economy grew as a result of the strong growth in the USA and Asia. However the growth slowed down during the year. This was mainly because of the sharp rise in raw material prices, especially in crude oil. However in the whole, the year became the most successful year in the Group's history. The success partly lied within the expansion of the MINI brand, the new BMW 1 series and the special centenary model of the Rolls-Royce Phantom limited to 35 cars due to the 100<sup>th</sup> anniversary. The Group's profit from ordinary activities was euro 3.554 million, 10.9 percent higher than the previous best result recorded in 2003.<sup>94</sup>

The recorded revenues for the different segments rose by 6.8 percent. As a result the revenues were euro 44.335 million. Going more closely into the segments, the BMW

<sup>93</sup> BMW Group Annual report 2003

<sup>94</sup> BMW Group Annual report 2004

Automobile segment's revenues were euro 42.544 million, implying an increase of 11 percent. The revenues of the Motorcycles segment decreased with by 2.5 percent and amounted in euro 1.029 million. However the revenues reported for the Financial services segment, increased by 8.5 percent compared to year 2003. Hence, the revenues were amounted to euro 8.226 million.<sup>95</sup>

The overall sales volume for the BMW Group developed positively during the year 2004, with an increase of 9.4 percent in comparison to the previous year. Of note were the sales performance in USA where BMW Group was the leading European premium automobile manufacture in terms of vehicles sold. Nonetheless, USA maintained to be the market with the largest sales volume for BMW. In Western Europe an increase in sales volume could also be denoted even though sales in the largest market in Europe, Germany, did not show any significant growth. As a contrast, Great Britain followed previous large growth development in sales. In other parts of Europe, the sales volumes were positive too. Especially in Greece where the number of cars sold rose by 57.9 percent. In the Asian market the sales volume also rose with Japan as the largest market.<sup>96</sup>

Cost of sales amounted up to euro 34.064 million, an increase by approximately 6 percent in comparison to previous year. However, when comparing the increase of cost of sales to the increase in revenues, the growth in cost of sales is lesser, resulting in a rise in the gross profit. The sales and administrative costs continued to increase. When also comparing the increase of sales and administrative costs and the increase in revenues, the growth in sales and administrative costs is lesser.<sup>97</sup>

In 2004 the capital expenditure of the BMW Group was euro 4.347 million. Euro 3.226 million was invested in property, plant and equipment and intangible assets. Furthermore, euro 1.121 million was recognised as assets. The investments in the BMW plant in Leipzig continued year 2004, as well as the investments in the expansion of the internal and external production network and of the sales network.<sup>98</sup>

An increase of 9.7 percent could be seen in the balance sheet total of the Group, amounted to euro 67.415 million. The raise derived from increase on the asset side, of the balance sheet, due to the level of receivables from sales financing, of the property, plant and equipment, leased products, inventories and intangible assets. In addition, on the equity and liabilities side; changes in equity, debt and deferred income also contributed to the increase. If to be

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<sup>95</sup> BMW Group Annual report 2004

<sup>96</sup> ibid

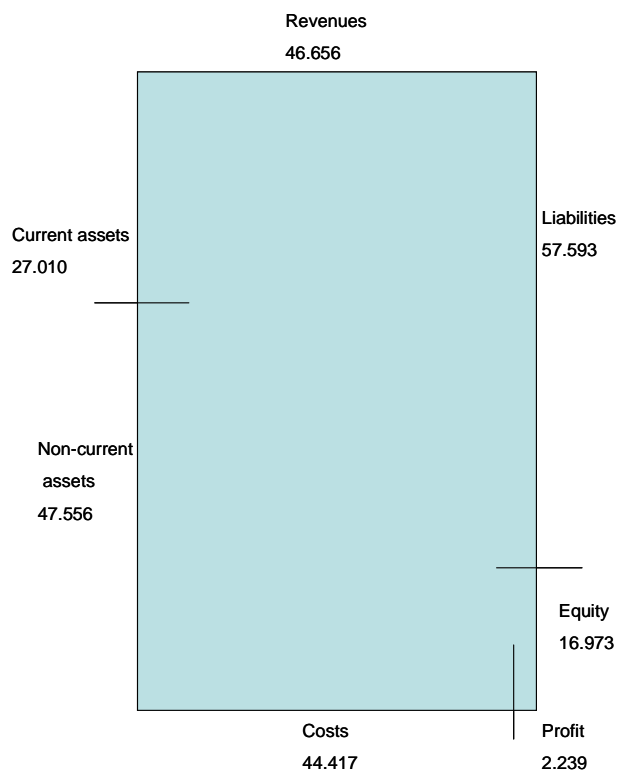
<sup>97</sup> ibid

<sup>98</sup> ibid



adjusted for the currency fluctuations, the balance sheet total should have increased by 12.1 percent.<sup>99</sup>

## 7.5 Year 2005



**Figure 15 Metrics for Year 2005 in euro million**

The development of the sharp prices in raw material, especially in crude oil, continued year 2005 resulting in lower buying power among the consumers and higher production costs for manufacturers. However the BMW Group's development of increasing sales volumes continued.<sup>100</sup>

The revenues recorded for the segments within the BMW Group differed from the previous year. Starting with the automobile segment, an increase of 7.8 percent was denoted. Thus revenues amounted up to euro 45.861 million. A stronger growth could be seen in the Financial Services segment and the Motorcycles segment. In the Financial Services segment, revenues were at euro 9.408 million, 14.4 percent higher than in the previous year. For the Motorcycles segment the applicable figures were euro 1.223 million.<sup>101</sup>

<sup>99</sup> BMW Group Annual report 2004

<sup>100</sup> BMW Group Annual report 2005

<sup>101</sup> *ibid*

Turning the sales figures into different markets instead, unit sold in the North American market rose by 4.1 percent. Consequently, with those results achieved, BMW Group retained the position of being the most successful premium manufacturer on the American market. Also in 2005, USA was the largest market for the Group with 307.395 units sold. In Europe, the largest market was represented by Germany. However, increases in sales volume in other parts of Europe were noteworthy in Italy, France, Spain, Portugal and in particular in Hungary. The Asian market sustained, as previous, with the increasing sales volume development. Sales volume in the Chinese market grew considerably. However, Japan remained the largest market in the region.<sup>102</sup>

The Group's costs of sales were euro 35.992 million, an increase by 5.7 percent. Factors contributing to this change are in the annual report stated to be unfavourable exchange rates markets and higher raw material prices. In comparison to revenues costs have increased by 0.5 percent more than revenues. In the subject of the sales and administrative costs, a rise could be denoted by 2.5 percent, amounting in euro 4.762 million.<sup>103</sup>

The previous increasing development in the capital expenditure for the Group abated year 2005. Euro 2.597 million was invested in property, plant and equipment and other intangible assets. In addition, euro 1.396 million of the development costs was recognised as assets. This indicates a decrease of 19.5 percent compared to year 2004. When adding the recognition of development expenditure to assets, the total capital expenditure amounted up to euro 3.993 million. This represents a decrease by 8.1 percent. Expansion of the internal and external production network and of the sales network and investments in the BMW plant in Leipzig were like previous year mainly the subjects for the capital expenditures.<sup>104</sup>

Looking at the balance sheet total of the Group, it amounted up to euro 74.566 million, an increase by 10.2 percent. On the assets side a higher level of leased productions, intangible assets and receivables from sales financing mainly contributed to the increase of the balance sheet total. On the equity and liabilities side of the balance sheet, the posts principally contributing were other liabilities, pension provisions and financial liabilities.<sup>105</sup>

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<sup>102</sup> BMW Group Annual report 2005

<sup>103</sup> *ibid*

<sup>104</sup> *ibid*

<sup>105</sup> *ibid*

## 8. Branch and Competitive Analysis

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*In this chapter the competitors to BMW will be analysed. The analysed competitors are Audi, Porsche and Mercedes-Benz.*

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### 8.1 The Automotive Industry

The car industry is today characterized of overcapacity and very hard competition among the manufacturers. Roughly, one can divide the manufacturer in those that focus on emotional values and exclusiveness, they are called premium brands. Examples of this are BMW, Mercedes-Benz and Audi. In contrast there are companies that focus on quantity like Opel and Ford.<sup>106</sup>

The different manufactures have dealt with the situation of the overcapacity in different ways. Looking at BMW one can see how the issue of overcapacity does not seem to be a problem. Thus, BMW are investing euro 19 billion in new products and product-driven production, in aim to expand their production capacity. The amount is approximated to be spent during the period of 2005 to 2009. This indicates an expected greater demand than the cars produced and supplied. A pattern previously known in the case of BMW who has not yet been forced to change strategies and decrease prices in aim to get rid of cars produced. In this way the high price levels have been remained as well as the premium brand.<sup>107</sup>

There are a lot of complex cooperations and owner structures in the automobile market today. The development of an entire new model is an expensive project and the cost of the development is often shared among several brands. An example of this is General Motors (GM) which is the largest auto manufacturer in the world. GM is the sole owner of brands like Opel, Chevrolet, Cadillac and Saab. The brands' developments of new cars are enhanced when sharing costs and competence. There is almost no one in the business today that does not have some form of cooperation with another manufacturer. One exception is BMW. It is almost impossible to find a component from a BMW in another brand and vice versa. BMW develop and design everything by themselves, which is very unique in the business today.<sup>108</sup>

The development in the premium cars segment has been very dynamic during the latest ten years. The product cycle has been shorted and the model programme has been augmented. This sharpens the competitiveness and creates higher demand on the manufacturers.

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<sup>106</sup> See Appendix 1, Interview Matts Carlsson

<sup>107</sup> BMW Group Annual report 2005

<sup>108</sup> See Appendix 1, Interview Matts Carlsson

## 8.2 New Markets

As a result of repeated higher fuel prices and lower sales incentives in the United States market, the sales of passenger cars and light trucks decreased during 2005. The yearly sales in the USA market for 2005 were 16.9 million units. The Western European market has stagnated with total sales of 14.5 million units. The Central and Eastern Europe have some differing development of units sold. The Russian market was expanding while the demand in the new EU member countries decreased overall according to high inflow of used cars from other EU member countries.<sup>109</sup>

The emerging markets in South America continued to show strong growth rates during 2005. New registrations in Argentina almost rose by 30 percent in 2005 and 100 percent in 2004<sup>110</sup>. The same figure for Brazil was 10 percent. Driven by double-digit growth rates in the Chinese automobile market, the emerging markets of Asia were once again the main source of growth rates in the global automobile industry.<sup>111</sup> The annual growth rate of the Asian market was 25 percent. After Japan and China, Indian was the third largest market in the Asian region. The growth rate in India was more moderate than the other Asian market and was about 6.5 percent. Even the market in South Korea that has contracted enormously in recent years had a growth rate of 7.3 percent in 2005.<sup>112</sup>

## 8.3 The Main Competitors

The authors have looked at three of the competitors to BMW. The main competitors to BMW are Audi and Mercedes-Benz, which compete with each other in almost all segments. The other competitor is Porsche, which is one of the most efficient and profitable producer of cars in the automotive industry.<sup>113</sup>

### 8.3.1 Audi

The Audi emblem with its four rings signifies one of Germany's oldest automobile manufacturers. It symbolises the amalgamation in 1932 of four formerly independent motor-vehicle manufacturers, which were Audi, DKW, Horch and Wanderer. These companies

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<sup>109</sup> DaimlerChrysler Annual Report 2005

<sup>110</sup> BMW Group Annual Report 2005

<sup>111</sup> DaimlerChrysler Annual Report 2005

<sup>112</sup> BMW Group Annual Report 2005

<sup>113</sup> See Appendix 1, Interview Matts Carlsson

formed the roots of what is AUDI AG today . Volkswagen AG currently holds 99 percent of share capital of Audi AG. <sup>114</sup>

The long term goal according to Prof. Dr. Martin Winterkorn, who is the Chairman of the board of Management of Audi AG, is to become the leading premium brand in the world. Further, another goal for Audi is to reach the limit of production of one million cars per year in the end of 2008. According to Winterkorn, Audi will launch 40 new models to 2015, which will make Audi to the most aggressive player in the premium segment. <sup>115</sup>

It is most probable that no other manufacturer in the premium car industry has as many new models in its pipeline as Audi. A lot of new models are already released and that can be seen in higher sales figures around the world. Compared to 2004, the yearly production in 2005 grew by 6.4 percent to over 829.000 cars. In 2005 Audi posted record sales in 39 markets and bettered the overall sales record for the tenth year in succession. The production ten years ago, in 1996, was around 492.000 cars. Thus, Audi has almost doubled its production in ten years. The development of profit before tax has also shown a positive outcome; from euro 154 million in 1996 to euro 824 million in 2005. <sup>116</sup>

The workforce of Audi is denoted at 52.416. The plants of the company are located in Germany and Hungary. Audi Hungaria Motor Kft develops and builds engines for Audi AG. The headquarters is located in the German city of Ingolstadt, where also the main production takes place. <sup>117</sup>

Audi AG bought all shares in 1998, in the Italian manufacturer of extreme performance cars called Automobili Lamborghini S.p.A. Lamborghini manufactures some of the most exclusive sports cars today and has a yearly production of 1600 cars. Not only did Audi AG get a valuable brand when they bought the Italian manufacturer, but also access to Lamborghinis components. An example of the opportunities enabled, is Audi S8, a high performance car that uses the V10 engine from Lamborghini Gallardo. This car was newly introduced to the market and got much attention due to the association with Lamborghini. Audi has also a strategic alliance with the well known Danish stereo equipment manufacturer Bang & Olufsen. The A8 model, S8 and R8 have a Bang & Olufsen Stereo as extra available equipment. There is no other car manufacturer who has a similar strategic alliance and that can offer a similar product. This could be seen as a competitive advantage against BMW. <sup>118</sup>

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<sup>114</sup> [www.audi.com](http://www.audi.com)

<sup>115</sup> Audi 2005 Annual Report

<sup>116</sup> *ibid*

<sup>117</sup> *ibid*

<sup>118</sup> [www.audi.com](http://www.audi.com)

According to Prof. Dr. Martin Winterkorn the growing progress of Audi will continue at the same pace as before. He sees great potential in the Asian market, especially in China and, according to him; Audi is leading the premium segment there. In addition he sees great potential in the USA market. BMW Group has a yearly sale in North America of 329.000 cars<sup>119</sup>. The same figure for Audi is 83.000 cars. The two manufactures have almost the same model programme with cars in the same sizes and premium levels so it is likely that Audi has a lot of potential to grow in this market. A potential factor for the large differences here might be that BMW for a long time has offered a SUV model called X5 that has been manufactured in USA. Audi has just introduced its SUV called Q7 which has become a success, especially in Europe.<sup>120</sup>

During 2006 Audi has been launching a raft of new models, where Q7 is one of them. Another one is the new TT model where the previous model had great sales success. The new TT will also be available as a convertible during 2007. This car is a competitive model to BMW Z4. Audi has also released the high performance car of A3, A6 and A8 which are called S3, S6 and S8. The cross-over model based upon A6 called Allroad was also released this year. BMW has no model that they can be compared with to this car.<sup>121</sup>

Audi has also presented an extreme performance car called R8 which initially was a racing car. The car is almost to be compared to the car that Audi has competed with during the races in Le Mans 24 our race. Also this car has no competitor among the BMW models.

Audi has shortages in the important premium coupe segment. BMW have 6-series and 3-series coupes. But according to automotive press there are new models in pipeline to fill this gap. A new model called A5 will arrive in the spring of 2007 which will be a coupe of the A4 model. A larger coupe called A7 will also be launched.<sup>122</sup>

The strength of Audi is that it is owned by Volkswagen, which has a close connection to Porsche. This enhances dividing cost of development as well as competence among the manufacturers. An example of this is the SUVs, Porsche Cayenne, Volkswagen Touareg and Audi Q7 that were developed together. They share the same components with different design that not visible to the customer, such as engines and suspensions. This is also the case with other Audi models that share the same components with Volkswagen models. BMW develop

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<sup>119</sup> BMW Group Annual Report 2005

<sup>120</sup> Audi 2005 Annual Report

<sup>121</sup> ibid

<sup>122</sup> [www.auto-motor-und-sport.de](http://www.auto-motor-und-sport.de)

all the components by themselves and therefore have to bear all the expenses. This could be seen as a competitive advantage for Audi.<sup>123</sup>

The weakness might be that Audi has some product shortages. Some models that BMW already have and have had for quite a long time are missing in the model programme of Audi. The SUV X5 is an example of this. It is not just the fact that the X5 has been in the market for a long time, it has also made the brand of BMW well known for new customers especially in the North American market.<sup>124</sup>

### 8.3.2 Porsche

Porsche AG is a profitable automotive manufacturer that has its' headquarter located in Zuffenhausen in Stuttgart, Germany. Porsche is a manufacturer of very exclusive high performance sports cars. The company is probably most well known for the classic name and the model 911. The company has a turnover of euro 7.7 billion and has 11.384 employees<sup>125</sup>. Income before tax has been steadily increasing from euro 84 million in 1996, to euro 2110 million in 2005. The amount of the employees has roughly remained the same.<sup>126</sup> Porsche has dramatically increased its production during the latest years from about 55.000 units in 2001 to about 110.000 in 2005. Porsche is also famous for its high quality in production and is today positioned on the top rankings in the J.D. Power study.<sup>127</sup>

Porsche had a lot of problems during the 1990's with old-fashioned production methods, few models and down turning sales figures. DR. Wendelin Wiedekings took over the leadership of the company and made a large reorganisation and modernization of the company in the middle of the 1990's.<sup>128</sup> The manufacturing became more efficient and some of the production was moved abroad. A new model where developed called Boxter and this was a smaller model than 911. Boxter is manufactured in a plant in Nystad, Finland. The decision to develop this car where criticized from many directions claiming that Boxter was not a real Porsche. However the Boxter became a great success.

In the beginning of the 2000's, Porsche developed a SUV (Sport Utility Vehicle) called Cayenne, which became a real success especially in the North American market. This model is a competitor to BMW X5. Cayenne shares a lot of components with Volkswagen Touareg and Audi Q7. Porsche has also recently opened a manufactory plant in Leipzig and one in

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<sup>123</sup> Own reflections

<sup>124</sup> Kiley, D, (2004), *Driven; Inside BMW, the Most Admired Car Company in the World*

<sup>125</sup> [www.porsche.com/international](http://www.porsche.com/international)

<sup>126</sup> Porsche Annual Report 2005/2006

<sup>127</sup> [www.jdpower.com](http://www.jdpower.com)

<sup>128</sup> [www.wikipedia.se](http://www.wikipedia.se)

Bratislava, Czech Republic. The latest model is a car sized between the 911 and the Boxter called Cayman.<sup>129</sup>

In the end of 2005, Porsche bought 18.65 percent of the shares in Volkswagen AG. After that Porsche has increased its ownership to 27.4 percent. Porsche is planning to increase its ownership in Volkswagen even further and the reason for this should be to take over the control of the company. This owner situation implies that there is a close relationship between Porsche and Audi since Volkswagen is controlling 99 percent of the shares in Audi. So indirectly Porsche is a large owner of Audi. According to Dr Wendelin Wiedeking the values of the shares in Volkswagen have increase by 1 billion Euros since Porsche bought them. Porsche also got two seats in the Volkswagen Supervisory Board. Further, this investment is a long-term investment and the purpose is both to have development and manufacturing together with Volkswagen and to create a basis for more intensive and successful collaboration in the future.<sup>130</sup>

There is very high secrecy in the automotive industry today to hide new models from being discovered. The companies in the businesses do their best to hide new models as long as possible. But Porsche do exactly the opposite. In the annual report for 2005/2006 the authors can read about a new model that is under development and the car, which will be a large luxury and sporty sedan, will be called Panamera. This car will be released in 2009. The thought with the Panamera is to broaden the model programme and to get the opportunity to tap into entirely new customer groups for the company and the Porsche brand. Panamera will be a competitor to the BMW 7-series.<sup>131</sup>

Porsche have four different kinds of models today which are the 911, Boxter, Cayman and Cayenne. The first three of them are pure sports car in different sizes while the fourth is a SUV which is a sporty off-road vehicle. Cayenne has been a real success for Porsche and is regarded as one of the most exclusive and sportiest SUVs in the market. The Cayenne has sold over 140.000 units, well above Porsche's own expectations. As previously mentioned, a new large sedan from Porsche will be launched in 2009. The car will be called Panamera and will be a four door premium-class sports coupe.<sup>132</sup>

Porsche is represented in over 100 markets today. Many of the sales take place in the Porsche Centers. In the Porsche Centers the cars are sold in exclusive show rooms that look exactly the same around the world. This creates a special value of the Porsche brand. Porsche

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<sup>129</sup> [www.wikipedia.se](http://www.wikipedia.se)

<sup>130</sup> [www.e24.se](http://www.e24.se)

<sup>131</sup> [www.auto-motor-und-sport.de](http://www.auto-motor-und-sport.de)

<sup>132</sup> Porsche Annual Report 2005/2006



has also very loyal customers and there are several Porsche clubs around the world. Every fifth Porsche owner is a member of one of these clubs. Porsche have never been stronger than it is today. The product portfolio has never been as wide as it is today and the company makes high profits to its owner. It is likely that a wider cooperation in product development between Volkswagen and Porsche, and especially with Audi will be established in the future. In the segment of sporty cars Porsche is a very strong and aggressive competitor to BMW. Even in other segments as SUVs and luxury sedans, BMW has to watch out. Porsche is a significant competitor to be aware of for BMW in the future.

### **8.3.3 Mercedes-Benz**

Mercedes-Benz is probably the most important competitor to BMW today. During the twentieth century the company was regarded as one of the most exclusive automotive manufacturer in the world and the brand has a high recognition. In year 2000 the Interbrand rating agency appointed out Mercedes-Benz as the top premium automobile brand worldwide.<sup>133</sup>

The parent company of Mercedes-Benz, the Daimler-Benz AG was in 1998 merged by the American car manufacturer Chrysler Corporation. The new company was named DaimlerChrysler. The company owns hundred percent of the shares in Mercedes-Benz. Mercedes-Benz has its main production and headquarters in Stuttgart, Germany. This merger enhanced new conditions for both companies to develop new models at lower costs. The two manufacturers could utilize the same platforms to construct different car models.<sup>134</sup>

Mercedes-Benz Car Group has a workforce of 104.345. Mercedes-Benz Car Group had in the end of 2005 a yearly sale of 1.216.838 cars. 1.092.500 of the produced cars were Mercedes brand cars, which is an increase by 2 percent compared to 2004.<sup>135</sup>

Mercedes-Benz is probably most famous for its large and luxury sedans. In the end of the twentieth century Mercedes-Benz started to develop more new models in different sizes and in different kind of segments. It was quite revolutionary when the company launched a smaller car in the end of twentieth century called A-Class.

Like the M-models from BMW, Mercedes-Benz has a similar daughter company called AMG G.m.b.H. The AMG models are cars with very high performance and almost every Mercedes model is offered in an AMG version.<sup>136</sup>

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<sup>133</sup> [www.interbrand.com](http://www.interbrand.com)

<sup>134</sup> DaimlerChrysler Annual Report 2005

<sup>135</sup> *ibid*

<sup>136</sup> *ibid*

By the daughter company Smart, Mercedes-Benz manufactures an even smaller car than the A-Class. The Smart car is a quite expensive city car for just two people. Neither BMW nor Audi have a similar car in its model programme.<sup>137</sup>

As mentioned above, a large product development was initiated in the end of the twentieth century. This implied that Mercedes-Benz launched several new models in different segments in the coming years. One of these was the new M-Class, which was a large SUV. This car was specially developed for the North American market and was launched before BMW's similar X5. The M-Class was manufactured in Tuscaloosa, Alabama, USA.

Because of the large product expansion in the end of twentieth century and early twenty first century, Mercedes-Benz has a large and modern product portfolio. After a rigorous investigation of the product portfolio of BMW and of Mercedes-Benz the authors find that the product portfolio of Mercedes-Benz is larger than the one of BMW.<sup>138</sup>

In 2005 the Mercedes-Benz launched new S-, B-, M- and R-Classes. Four new models in one year are more than the company has ever launched before. B- and R-Class are completely new types of cars. The R-Class could be described as a grand sports tourer, which is a combination of a classic sedan, station wagon, van and an SUV. The B-Class could be described as a larger A-class. The introduction of the new S-Class was a large event in the automotive industry. The S-class is the largest and most exclusive sedan that is offered by Mercedes. The car is equipped with around a dozen pioneering innovations to offer the highest levels of safety and comfort. The S-class has almost 40 percent market share of this segment.<sup>139</sup>

Another famous model is the SL-Class. This is a large exclusive two-seated roadster. The SL is leading this category of cars with a market share of more than 60 percent.<sup>140</sup>

The exclusive CLS model that was introduced during 2004 is a completely new type of a car model. Both Audi and BMW have started a development of a similar car as the CLS.<sup>141</sup>

The volume models for Mercedes-Benz are the C-Class and E-Class which stands for 33 and 22 percent respectively of the entire production. The C-Class will be replaced in 2007 with a completely new model.<sup>142</sup>

Mercedes-Benz has during the latest years had problems with its quality reputation. In 1990 Mercedes-Benz was proudly ranked as number one in the J.D. Power survey of car

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<sup>137</sup> www.smart.com

<sup>138</sup> DaimlerChrysler Annual Report 2005

<sup>139</sup> www.autointell.com

<sup>140</sup> ibid

<sup>141</sup> www.auto-motor-und-sport.de

<sup>142</sup> ibid

dependability. In 2003 this ranking plunged to number 26, which is 8 slots below the industry average, after Chrysler, Ford, and Plymouth. However it is rather unlikely that the quality problems were the main factor that made BMW went ahead of Mercedes-Benz in the sales statistics. It is more likely that it was due to the new sporty approach, that premium car buyers would like to be associated with.<sup>143</sup>

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<sup>143</sup> See Appendix 1, Interview Matts Carlsson

## 9. Future Performance Analysis

Year		2 006	2 007	2 008	2 009	2 010	Estimates
Revenues	euro million	48 849	51 145	53 549	56 065	58 701	1.047
Profit before financial result	euro million	3 918	4 047	4 180	4 317	4 460	1.032
<b>Net profit/ - loss for the year</b>	euro million	<b>2 349</b>	<b>2 464</b>	<b>2 586</b>	<b>2 713</b>	<b>2 846</b>	<b>1.049</b>

When analysing the foreseeable future, 2006-2007, the annual reports for the BMW Group during the five past years, 2001-2005, are applicable. Looking at the mean values for the posts in the income statement and the balance sheet, an average growth in the figures is found and used as estimates.<sup>144</sup>

Starting with the income statement, the mean value of the yearly growth of revenues was 4.7 percent during the years 2001-2005. Thus, the development of the revenues in the future looks positive. However, even though the revenues have a yearly increase, the overall costs also do. As a result the net profit becomes of interest. The mean value for the net profit during the five past years was 14.8 percent. But when looking at the increase in the revenues year 2001, the growth was remarkably high in comparison to the following years. For that reason the estimate for revenues was adjusted by eliminating the growth for 2001. Hence, the estimate is constituted by the mean value of the years 2002-2005. The estimate of a yearly growth by 4.9 percent is 0.2 percent greater than the mean value of the revenues. This implicates that in the five upcoming years, the development of the revenues increase in a greater pace than the overall costs.<sup>145</sup>

Comparing these figures to the analysts' average estimates for the years 2007-2008, the forecasted figures for the revenues are roughly the same, differing by approximately euros 500 million. However for the year 2009, the average value predicted by the analysts is about euros 2.000 higher. There are differences in a comparison to the analysts' figures, also in the case of the net profit. The forecasted figures by the analysts are greater for the years 2007-2009 and the differences lie between the range of euro 194-401 million.<sup>146</sup>

The different posts in the balance sheet have had different growth during the previous years and when summing them up, equilibrium of the balance sheet total is not achieved. Thus it is accounted only for the balance sheet total in the future performance calculations.<sup>147</sup>

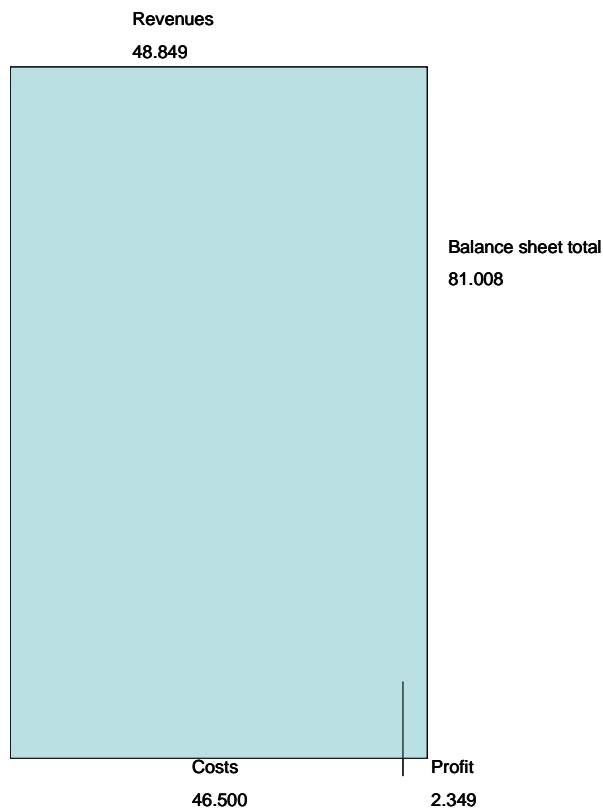
<sup>144</sup> See appendix 2

<sup>145</sup> *ibid*

<sup>146</sup> *ibid*

<sup>147</sup> *ibid*

In the balance sheet total of the BMW Group, the mean value for the increase between the years 2001-2005 was 8.6 percent. During the past three years 2003-2005 the yearly increase has been in the range of 10 percent. Hence, the calculated average and estimate is 1.4 percent lower. In the upcoming years the development of the balance sheet total results in an increase by 39.3 percent between the years 2006 and 2010. This can be compared with the increase by 45.5 percent that the balance sheet total has grown with between the years 2001 and 2005. A sixth square of the year 2006 can hence be created by the estimates.<sup>148</sup>



**Figure 16 Metrics for Year 2006 in euro million**

<sup>148</sup> See appendix 2

## 10. Concluding Discussion

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BMW is a well known and highly valued brand. Hence it is a great advantage for the company. In the premium segment market, the prices for the cars are higher and therefore the well established brand creates legitimacy and justifies the customers to the purchase of a BMW car. An example of this is the BMW 3-series, in the segment for premium middle class cars. Despite the price, the 3-series is the best selling among premium competitors as well as common cars segment.

The diversity in the product portfolio of BMW is vast. In the different segments, many versions of the cars are offered. In addition BMW will launch new models not only in existing series but also in new segments in a near future. An example of this will be the third SUV called X6 that will be launched in 2008. The various cars available are homogeneous on all the different markets. Thus, despite where the car is bought the model is identical both in terms of performance and after sales services which creates creditability among the customers.

Compared to the competitors, another strength that BMW possesses is its sales on the American market. However, in particular Audi has had a strong sales increase on almost all markets. This is a fact BMW should observe. What also should be taken into consideration; in the upcoming years Audi will launch a number of new models, probably more than other premium cars manufactures.

The three years past, BMW has had higher sales volume than the archrival Mercedes-Benz and at the same time a considerably higher profit margin on each car sold. This is a strength of BMW. Also, BMW has not been confronting the same problems with quality that Mercedes-Benz has. In fact the quality BMW has held, has in many ways contributed to the strong brand. The high quality has also been recorded among external analysts like the J.D. Power study. Seen as a result are the loyal customers and the high rate of satisfied customers' index.

BMW possesses high internal competence and the company develop a large part of the car by themselves. BMW is not dependent on any other company that could force them to utilize components or stop the development of expensive solutions that will distinguish a BMW from another brand

Many car manufactures collaborate in terms of research and development. However BMW has declared their independency and want to keep their business developments to themselves. Therefore BMW gets left out of the opportunity in reducing costs and taking advantage of

synergy effects. This strategy can be seen as a construction of the brand reinforcement where the customer is to be certain of that all components are manufactured for their car, the same brand, BMW. Furthermore a trend in the automobile industry is to use the same components in different types of brands. Also here, BMW differ from the industry average since they customise their components after each car model themselves.

Even though BMW has not entered into any more substantial corporations with another car manufacturer, it is still possible to observe how BMW has acted to acquire new market shares. A clear example of this is the acquisition of Rover. The authors hold the view that this acquisition was made in order to win new markets. Hereby the BMW could enter into a smaller segment without risking its well developed brand. All this was made at the expense of Rover.

Moreover, in the case of the acquisition of Rover, are the financial effects. The acquisition turned out to be a great loss according to BMW and the company decided to sell out the Rover business. What can be denoted is how the loss was covered in terms of the financial aspect. The fact that BMW entered the loss into the books in two years and still could show positive result for those specific years, in many ways shows the financial strength of the company.

What has become notable is the environmental awareness whereas focus has been set on development of environmentally friendly cars. Under the Kyoto protocol to the climate convention the European Union has committed itself to reduce emissions of the six key greenhouse gases. As a result European car manufacturers have entered into a voluntary agreement with the European Commission to reduce levels of carbon dioxide emissions to 75% of 1995 levels before the end of 2008. Even though the diversity is vast in the product portfolio of BMW, a fully developed environmentally friendly car is yet not available on the market. Also when looking at the cars produced by BMW it becomes evident that the cars are highly energy consuming. This problem is noteworthy and leaves the future to decide the size of the matter.

The emerging markets in South East Asia, Russia, Eastern Europe and South America have shown evident growth developments. The authors believe that, even though the Western countries' domination of the market is expected to continue, the rapid growth experienced in the emerging markets will catch up to an equal level. Since figures also confirm previous low rates of new car sales, an opportunity arises in these markets for increasing revenues. In addition, seeing as labours costs in several of these markets are low, allocation of production there is yet another opportunity to lower costs. To take advantage of the situation on these

markets presuppose that establishment has already been made due to the tough competitiveness among the automobile manufactures. BMW has already a plant in China for example and has during the past years recorded an increase in sales volume in most of these markets.

Eminent production, transportation and raw material costs have both dampened margins and affected the buying power of consumers. High oil prices compounded by fears of terror attacks in Saudi Arabia, the impasse over Iran's nuclear program and the Iraq war, have formed perhaps the most significant shock to the market in recent years.

Another external factor that could influence BMW negatively is a large recession in the world economy. In addition, higher interest rates could affect the sales figures negatively since 41.1 percent of the purchased BMWs are financed by BMW Financial Services.

Contributing to the successful development of BMW are the continuously investments in innovation; the latest technologies and experienced workforce. The authors believe that the strategy of differentiation has been enabled thanks to the owner structure that BMW has experienced. With a family dominated ownership structure, the short term stakeholders' value driven strategy has been disregarded. Hence, long term perspectives as well as the long term profits of BMW have been prioritised. Thus, this strategy takes many years to establish and can be seen as an important competitive advantage.

With all the internal and external factors given, the authors draws the conclusion that future outcome of the financial performance of BMW looks positive. The authors see no reasons to adjust any approach in the market in terms of changing segment; BMW operates successfully in the premium segment. In fact, the brand seems in many ways be empowered by the high quality and the rather expensive cars.



## ***Areas for Future Research***

The thesis has mainly focused on the cars of BMW as well as the competitors'. What would be of interest are the services that the automobile manufacturers offer beside the cars, the after sales services, like financial services for example. Future research could also include studies of customer loyalty in association to the after sales services. Furthermore one can study what the automobile manufacturing industry looks like today, what signifies an automobile manufacturer. Thus, one can study in what extent recorded earnings in the automobile manufacturing arise from car sales in specific.

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## Appendix 1

Interview questions, Matts Carlsson:

Is it possible for BMW to stand alone in the automotive industry without engage in any alliances or collaborations with another automotive manufacturer?

Do you know if there exists any alliance between BMW and some other automotive manufacturer?

Should BMW enter into new segments?

Is there anything remarkable in the financial structure of BMW?

Is the owner structure in BMW a problem to the company?

Will the competitive situation among premium brands increase in the near future?

Is the success of BMW assignable to the quality problems of Mercedes-Benz?

Is there any connection between Porsche and BMW?

Does BMW lack a credible environmental profile?

How important is an environmental friendly profile in the automotive industry?

## Appendix 2

### BMW Group

Year		2000	% growth	2001	% growth	2002	% growth	2003	% growth	2004	% growth	2005	average growth	2 006
<b>Income Statement</b>														
Revenues	euro million	37 226	1,033	38 463	1,103	42 411	0,979	41 525	1,068	44 335	1,0524	46 656	1,047	48 849
Profit before financial result	euro million	2 065	1,625	3 356	1,044	3 505	0,957	3 353	1,126	3 774	1,005	3 793	1,033	3 918
Profit before tax	euro million	2 032	1,595	3 242	1,017	3 297	0,972	3 205	1,118	3 583	0,917	3 287	1,006	3 307
Income taxes	euro million	823	1,672	1 376	0,928	1 277	0,985	1 258	1,066	1 341	0,782	1 048	0,940	985
<b>Net profit/ - loss for the year</b>	euro million	1 209	1,543	1 866	1,083	2 020	0,964	1 947	1,152	2 242	0,999	2 239	1,049	2 349
														2 322
<b>Balance sheet</b>														
Non-current assets	euro million	30 079	1,040	31 282	1,108	34 667	1,065	36 921	1,106	40 822	1,165	47 556	1,097	52 158
Current assets	euro million	19 261	1,037	19 977	1,043	20 844	1,178	24 554	1,092	26 812	1,007	27 010	1,072	28 943
<b>Total assets</b>	euro million	49 340	1,039	51 259	1,083	55 511	1,107	61 475	1,100	67 634	1,102	74 566	1,086	81 008
Equity	euro million	9 432	1,142	10 770	1,288	13 871	1,164	16 150	1,024	16 534	1,027	16 973	1,129	19 161
Non-current provisions and liabilities	euro million	17 386	1,106	19 223	1,042	20 028	1,103	22 090	1,200	26 517	1,113	29 509	1,113	32 836
Current provisions and liabilities	euro million	22 522	0,944	21 266	1,016	21 612	1,075	23 235	1,058	24 583	1,142	28 084	1,047	29 410
Total liabilities	euro million	39 908	1,015	40 489	1,028	41 640	1,088	45 325	1,127	51 100	1,127	57 593	1,077	62 039
<b>Balance sheet total</b>	euro million	49 340	1,039	51 259	1,083	55 511	1,107	61 475	1,100	67 634	1,102	74 566	1,086	81 008