BMW Motorrad Portugal, location of a new dealership

A case on industry analysis and location and pricing strategies

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Abstract

The motorcycling market in Portugal is growing significantly and the upcoming years seem extremely promising. In fact, in the segments where BMW Motorrad Portugal competes, we are observing growth rates of 20% from year to year. Therefore, there exist business opportunities that no brand can afford to ignore, and BMW Motorrad Portugal must not fall behind.

With the possible opening of a new dealership, new opportunities emerge and Carlos Martins, the head-manager of BMW Motorrad Portugal, has to attain as much positive value as possible from those opportunities. The challenge is to find the best location for the new dealership, with the north or the south of Portugal as possible locations, while taking into account all the variables that enter in the process and new perspectives for the actual structure of BMW Motorrad Portugal, namely the after-sales' services and pricing strategies along the supply chain. The goal is to maximize profits and fulfil clients' needs. To do so, the cross-points are whether to locate the new dealership in the north of Portugal, where there exists high density levels of population, or in the south of Portugal, where we can find the higher levels of financial affluence, and whether a new after-sales paradigm should be implemented or a new pricing strategy within the supply chain should be taken into consideration.

Acknowledgments

Firstly, I would like to thank BMW Motorrad Portugal's head manager, Carlos Martins for its time and availability to clarify all sorts of doubts and explanations. Moreover, I must thank for all the provided data by BMW Motorrad Portugal that was of utmost importance to the development of this case study and that enabled a deep analysis of the motorcycling market in Portugal.

I would also like to thank Paulo Gonçalves Marcos PhD, whose role was essential throughout all the thesis stages and that directed my path with fundamental strategic insights.

Furthermore, I want to genuinely thank with love to all the people that are really important to me, and for whom no designation is required, that also with love helped me through this special stage of my academic, professional and personal life.

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Case-Study

As the head-manager, Carlos Martins strives everyday to continuously make BMW Motorrad Portugal to be what it presently is: the leading brand in the premium motorcycles' segments and above 750 cubic centimeters' markets. But he knows what is yet to come. More sales, fiercer competition, decisive actions to be taken and vital decisions to be made. At that time, the question on his office table was: Where should a new dealership be opened, north or south?

BMW Motorrad plays in a growing market with a very particular set of characteristics while its structure is getting old to cope with the rigorous demand, and that is an undeniable fact. With that in mind, Carlos Martins with his apparent peaceful, assertive and calming attitude, alongside with his ability to relieve pressure from his work-people by assuming it, is burning inside with the decisive responsibility of deciding where a new dealership should be opened. It is an enormous investment, not only in strictly financial terms, but also considering the bond he has to honor with actual clients, the global brand he has to represent and the fiercest competition he has to conquer in order to maintain the actual BMW Motorrad's market share.

BMW Motorrad overview

The BMW business, which has started in 1917 by manufacturing aircraft engines, was forced to shift to motorcycle production in 1923, due to the terms of the Versailles Armistice Treaty, signed after the end of World War I.

After the beginning of the production of motorcycles, BMW started to manufacture automobiles in 1928, creating then the sub-brand BMW Motorrad, that is nowadays a subsidiary of the BMW Group (BMW cars, MINI, BMW Motorrad and Rolls-Royce).

Alongside with being globally known for continuous development, from technological specs to performance and security, BMW Motorrad only produces motorcycles to the premium segment, offering it in four distinct categories: Adventure, Tour, Roadster and Sport. BMW Motorcycles are products with high standards of quality and attention to detail, willing to satisfy its clients needs, desires and expectations. In fact, even though security is a sensitive topic in a motorcycling context and a theme that no motorcycling brand wants to directly address, BMW Motorrad was the first brand in the world to offer ABS (Anti-locking braking system) from stock in its entire range of motorbikes, ensuring its attitude towards sensitive matters. Alongside that introduction, BMW Motorrad was also the first motorcycling brand in the World to introduce systems like Combined Braking and Traction Control.

Until 2005, Baviera, S.A., a subsidiary of Grupo Salvador Caetano, represented BMW Motorrad and since then, it is an official subsidiary of the BMW Group.

The BMW Motorrad Portugal division is nowadays headed by Carlos Martins, who started his career in BMW as cars' Area Sales Manager (ASM), a job where it is asked to monitor a vast set of dealerships across the country and to make sure that the service's standards are being achieved. As ASM, Carlos visited the entire network of dealerships and established relations with them. Carlos Martins, an engineer with a Master in Business and Administration, acquired a set of skills from that job that gave him empirical knowledge about all the variables related to the dealerships' essentials of success or fail.

The BMW Motorrad division can be divided in two main departments: Sales and After-Sales, with the remaining marketing and strategy departments working for both purposes. The Sales department, as the name suggests, is responsible for the sales of motorcycles and management of orders from dealerships. On the other hand, the After-Sales department is responsible for the maintenance of the motorcycles and the processes related to it (these processes are then carried out by the dealerships in their mandatory Workshop facilities), the sales of parts, equipment and accessories, and to form technical mechanics to deal with the complex and full-of-electronic motorcycles.

Competitors

Motorcycling in Portugal has been quite prone on sales fluctuations related to the type of motorcycle we are considering. Using the BMW Motorrad's categories as basis of analysis, for example, the Sport category that is nowadays the less relevant category in BMW's sales (3%, 29 out of 777 bikes sold. source: data provided by BMW Motorrad division), was, four to five years ago, a segment with a higher sales' volume (2011: 10%, 73 out of 732 bikes sold). Currently, the fastest growing segment is the first one (see **Exhibit 1**), of bikes under 250 cubic centimeters (cc), mainly due to the Portuguese legislation that certificates a driver with a car license to drive bikes with no more than 125cc.. Taking this into account we must be cautious when analyzing the significant variables in this context. The new legislation, in practice since 2009, but only showing results on sales on the past two years, came to reinforce the practical characteristics of having and using a motorcycle in an urban and professional context.

Segment	Cubic Centimeters
0	< 250cc
1	250cc < 500cc
2	500cc < 750cc
3	> 750cc

Source: ACAP – Associação Automóvel de Portugal

Due to the nature of BMW's motorcycles, that nowadays ranges its engines' sizes between 650 and 1600 cubic centimeters, firstly we must consider the other brands competing in those segments (2 and 3; see **Exhibit 2**). When using this segmentation we are only stratifying the market in a quantitative matter, and a qualitative approach is needed. As assumed before, the BMW motorcycles are directly targeted to a premium segment based on quality and security and not on a low-cost perspective. Despite being the unquestionable leader in the 3rd segment, there is a lot of room for improvement in the 2nd segment of the Portuguese market (see **Exhibit 10**).

Carlos Martins believes that the 2nd segment should be seen as an opportunity for BMW Motorrad Portugal. Mainly due to the "*natural development of a new-legislation's driver of a 125cc bike, the ones that are actually feeding the 2nd segment market*", he said. This natural evolution consists in recognizing that a 125cc motorcycle is not enough for most of the situations out of the urban context and, therefore, they want something more, finding the answer somewhere in the 2nd segment, with a rational, cheap, economic, light-weight and almost maintenance-free bike. In order to prove that this theory goes alongside with reality, below are the best sellers bikes in 2014:

Rank	Brand and Model	Engine Size	Seg.	2014 unit sales	% sales
1	HONDA PCX 125	125	0	2092	14%
2	KEEWAY SUPERLIGHT	124	0	862	6%
3	SYM GTS 125	125	0	555	4%
4	HONDA NC750X	745	2	495	3%
5	HONDA CBF 125	125	0	419	3%
6	KEEWAY RKV 125	125	0	357	2%
			Total Seg. 0		29%
			Total Seg. 2		3%

Source: ACAP – Associação Automóvel de Portugal

As we can see in the top six sellers in 2014, bikes with 125cc in the top six sellers compose 29% of the entire market and the unique non-125cc is the cheapest 2nd segment's motorcycle (see **Exhibit 5**).

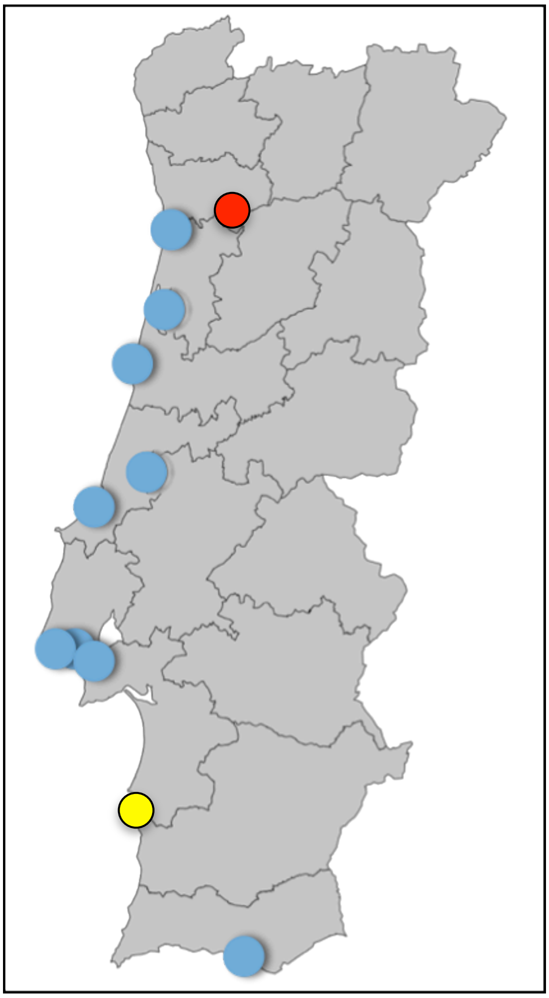
Calling on empirical evidences, the head-manager of the BMW Motorrad division believes that BMW Motorrad's target in Portugal for the next three to five years is composed of two great clusters. A first one, where consumers are looking for a medium-range, utilitarian bike, to act as a means of transportation. In this target consumers search for easy-access to the bike (financial services), a multipurpose solution and, after all, an alternative to a car. The second target is composed of people looking for adventure, a motorcycle that is able to travel long distances and an evidence of status, wealth and lifestyle. Those would be BMW's categories of Adventure and Tour, with large engine sizes.

Summarizing this analysis, Carlos Martins, relying on past experiences with dealerships, knows that the following years are going to be favorable to the 2nd segment's sales: "*The near future of motorcycling in Portugal is going to be deeply related with concepts like urban, the practical-sense of a motorcycle and easy and cheap maintenance.*" In fact, 125cc urban-style motorcycles have climbed to the top of sales in the last years (see **Exhibit 5**). These previsions will compose the decision variables for the coming process of opening a new dealership.

Dilemma - The new dealership

Commanding an actual set of nine dealerships, distributed across Portugal as **Figure 1** displays, Carlos Martins has the decision and responsibility of managing the location of a new, and long-time wished, dealership.

Figure 1) BMW Motorrad Dealerships



Competing with brands such as Honda and Yamaha, that only in Lisbon city have more dealerships than BMW Motorrad across the entire country (see **Exhibit 3**), Carlos Martins knows that the fiercer competition needs to be faced and a new dealership is the best response to it. But he needs to have a strategic location, taking into account all the objectives for the future and the competition, in order to be successful.

The process

There isn't an established process in what relates to opening a new dealership, even more because BMW Motorrad Portugal receives applications for opening dealerships almost every week, completely independent from the willingness of BMW Motorrad to actually open it. It is a continuous process along the years, where applications are received and analyzed, looking forward to find a business opportunity, favorable not only to the potential dealership owner, but above all to BMW Motorrad. These applications generally include the potential location, the physical area the applicant wants to use and some financial information about the structure of capital of the applicant.

In this specific situation, the process almost re-invented itself since BMW Motorrad, despite having products with great characteristics, was anxiously looking forward to adding a new point-of-sales to its dealerships' range in order to keep up with the strong competitors' presence in the Portuguese market.

Once begun, from the dozens applications received weekly, there were nine applications to truthfully consider. Those applications, almost equally distributed across the country, were then acutely examined following the parameters that Carlos Martins believed to be of utmost importance to BMW Motorrad:

1. Financial structure of the applicant
2. Located in a district's capital
3. Urban characteristics
4. Flux of people on the potential location
5. Experience of the applicant in the business

First of all, a premise that must be fully satisfied, relates to the financial structure of the applicant, since that in order to be able to cope with the costs of having stock of motorcycles, ordering and personnel, there must be a satisfactory level of working capital and a beneficial capital structure, free of unnecessary debt. The following three parameters are related to the location of the dealership, its characteristics and the flow of people that is forecasted to that location. The fifth variable that Carlos Martins evaluates in applications is the experience the applicant has in the motorcycling world, if he has owned any dealerships before, any relation to the motorcycling world, etc.

The Last Two

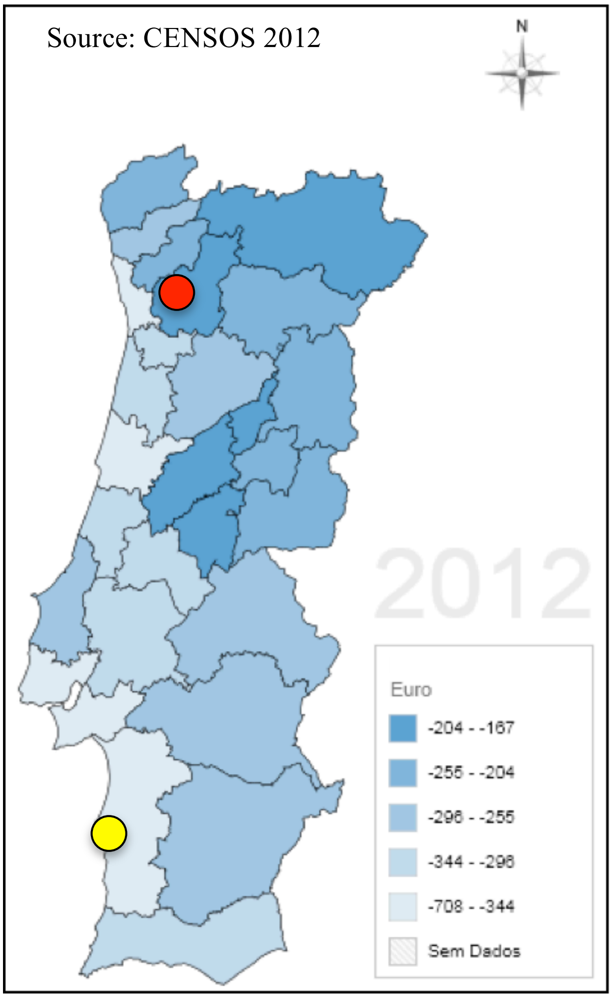
From those nine finalists, only two entirely fulfilled the criteria that Carlos Martins had established and, because of that, only those would be taken as viable candidates to the new dealership. With identical financial structures and experience in the motorcycles' market, the distinctive factor between those two final candidates was the location. One, dealership A (red, see **Figure 1**), would be located in the north of Portugal, near Porto, while the second one, dealership B (yellow, see **Figure 1**), would be located near Sines, a city at the Alentejo's coast.

Location

Carlos Martins now has in his mind that the future location of the dealership encloses a set of variables that cannot be entirely and equally fulfilled by both dealerships, otherwise the definition of the location wouldn't be a problem and the best location would be easily reached. To choose between dealership A and B, some demographic indicators much be analyzed and some priorities must be shaped.

"First of all, and even more once BMW motorcycles are premium products, with the corresponding price, it is important to choose a location where there might exist a reasonable level of income, allowing these kinds of expenditures." – Carlos Martins said.

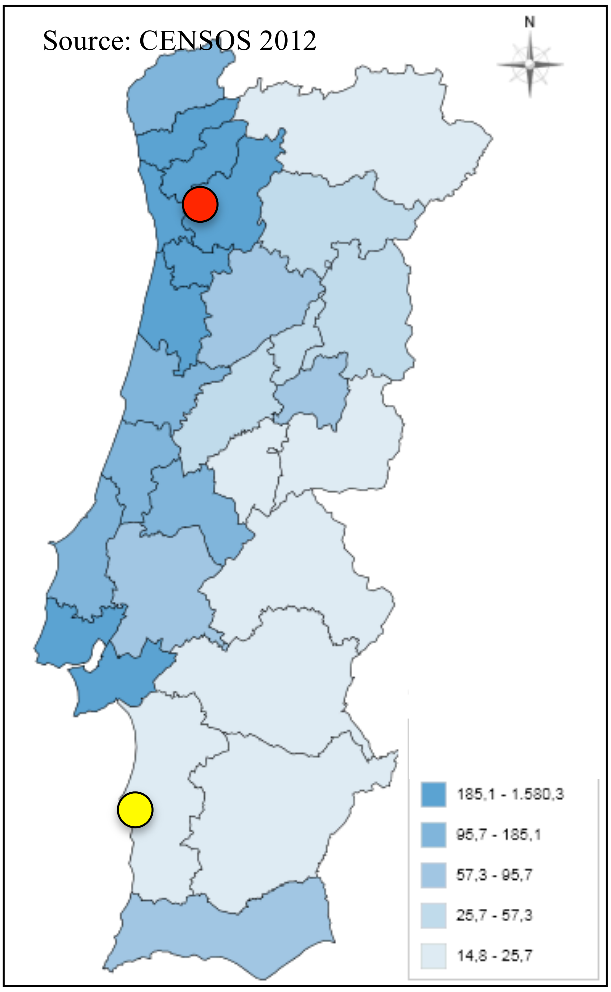
Figure 2) Difference between Minimum wage and Average Wage by region



Carlos Martins always has this in mind, although he knows that BMW Motorrad Financial Services (BMW FS) are able to offer an Effective Annual Percentage Rate (EAPR) in their loans rounding the 3,5% mark, a value that when compared with any consumer loan made outside the BMW Motorrad context is almost unbelievable (for the same conditions offered by BMW FS, EAPR: 10%). This turns an expensive product like a BMW motorcycle into something affordable, for those who don't have the needed financial capability. With this in mind, and when analyzing the two possible locations, Carlos Martins found great evidence that the south-coast region of Portugal had more free-cash than the north region. In fact, in the entire country, the biggest difference in value between the country's minimum legal wage and the region's average wage can be found in the region where dealership B will be located, the coastline of Alentejo (see **Figure 2**), with more than 5300 squared kilometers to cover, showing that the south-coast region of Portugal potentially has people with the financial capability to buy a BMW motorcycle.

Seen that all the consumers end up finding high levels of disutility in the distance they have to travel to the dealership (Albuquerque et al., 2008), a good approach would be to select the location that would permit most of the potential clients to travel short distances when visiting the dealership (see **Figure 3**). In other words, Carlos Martins now has the duty of determining its target population and to find where it is more concentrated, in the north or in the south.

Figure 3) Population's density by squared kilometer



After sales

While defining BMW Motorrad's target, Carlos Martins remembered that BMW's revenues didn't come solely from the Sales department. In fact, 40% of the revenues came from the After-Sales department, from sold parts to maintenance and equipment.

Carlos Martins saw this fact as an opportunity once that he thought that a decisive factor affecting the sales, and consequently the after-sales, could be the lack of offer of specialized maintenance services in the countryside. He believed in the evolution of the paradigm of sales and after-sales relationship. On the one hand, the distance travelled to buy a motorcycle could lose some significance due to the Internet and the wide-web offer of information and its ability to promote keep-in-touch relations with distant dealerships. But on the other hand, there was nothing that could be done in order to solve the after-sales' maintenance problem: "*Although one might travel a couple* *hundred of kilometers to buy such a passionate product as a motorcycle, nobody wants to travel that much to change the oil!"*, Carlos Martins says. In fact, the distance to a dealership gains special relevance when considering the kilometers a client has to travel to maintain his bike. More than 70% of people consider distance to be an important factor when thinking about where to take their motorcycles to comply with the maintenance program, while on the buying perspective only 50% consider distance to have importance (see **Exhibit 6**).

One solution could be to begin opening new dealerships, with a smaller size and reduced investment, in order to improve the covered range. The truth is that when comparing the dealerships' network of BMW Motorrad with its competitors, we find that, although having almost ten times more dealerships than BMW, the competitors' dealerships, due to its volume, tend to be misaligned with the self-brand's objectives, to lack on infrastructures and to be quite poor on their communication, service and revenues. A premium brand like BMW cannot afford to enter into that classification, notwithstanding the existence of a lot of market to be covered in the Portuguese countryside.

Carlos Martins then came up with a possible solution: "*We must ensure that no market is lost. But we don't need to open an immense number of dealerships... we just need to assure the maintenance services across the entire country!*"

In Carlos Martins' perspective, a new concept could be created. A network of "BMW Motorrad's Workshops" in strategic locations, which would only need the basic tools in order to assure motorcycles' maintenance and a small shop for parts and accessories, with no more than two/three workers to deal with the demand. That would be a lot cheaper than opening a whole new dealership, with Sales and After-Sales services, and a lot easier too. This way, travelling lots of kilometers to "*change the oil*" would not be necessary and new regions could be covered.

Consequently, consumers would not have to consider the maintenance processes' weight in their decisions. Furthermore, the 33% of the surveyed people that said they hadn't done maintenance in BMW Motorrad's dealerships, or that would cease doing after warranty-time (see **Exhibit 7**), would have an incentive to return to the official BMW Motorrad's workshops. Alongside with this data, the price of the hourly-rates applied does not have more importance than the qualification of the technicians (see **Exhibit 8**), and that further reinforces the viability of this new concept.

Next Step

The way the motorcycling market is developing in Portugal emphasizes the need of having a new dealership to serve BMW Motorrad Portugal's demand. The inner structure and characteristics of BMW Motorrad Portugal as a company, alongside with the everyday fiercer competition and the innovative desires of the market, make the decision of choosing the location for the new dealership a deep and demanding process of evaluation and analysis through the presented variables. If, on the one hand, BMW motorcycles are undoubtedly expensive and premium products, peremptorily requiring a lot of financial capability from its buyers, on the other hand a new BMW Motorrad dealership with such unrelenting costs needs high amounts of in-store flux of people in order to enable the aspired break-even-point sales.

To further complicate Carlos Martins' decision, a new-paradigm of After-Sales services could be applied to the Portuguese reality in a near future, re-launching the problematic between Sales and After-Sales' services and the difficulty in beneficially choosing the new location to a new dealership, if the following years of activity are to be taken into the equation.

Furthermore, customers almost force their beloved dealerships to reduce motorcycles' price to its lowermost (see **Exhibit 4** and **Exhibit 19**), arming themselves up with different proposals from different dealerships and brands, transmitting this way a message that says that customers, even on this type of product, are quite price sensitive and that a reduced price is the only way of selling motorcycles.

With the duty of not losing market-share neither potential clients, time is something Carlos Martins does not have the privilege to have to make the call. The competition's chess game is on, and it is time for Carlos Martins to make the next move towards the checkmate.

Exhibits

Most part of the exhibits is based on a survey carried out by the case author with the objective of studying not only the particular consumer behavior of motorcycle's riders, of both BMW Motorrad and other brands, but also some demographic and psychographic characteristics.

Alongside with those general objectives, the survey had also the key purpose of analyzing the factors that motorcycle's riders value the most when buying or maintaining their motorcycles, differentiating between BMW Motorrad's or other brands' riders.

Exhibit 1

Sales evolution per segment

Entire Market

Segment	2011	2012	2013	2014	2013 vs 2014
0	14650	13718	10937	11046	1%
1	976	699	967	1027	6%
2	1451	1655	1389	1666	20%
3	1883	1113	1330	1643	24%
Total	18960	17185	14623	15382	5%

BMW

Segment	2011	2012	2013	2014	2013 vs 2014
2	124	170	155	114	-26%
3	607	414	554	663	20%
Total	731	584	709	777	10%

Source: research done by the case author based on industry's publications.

Exhibit 2

Sales and direct competitors

Brand	Unit Sales 2014*	Categories served**
BMW	777	A, T, R, S
Honda	999	A; T; R; S
Yamaha	666	A; T; R; S
Kawasaki	168	T; R; S
KTM	49	A; R; S
Suzuki	163	A; T; R; S
Ducati	154	T; R; S
Harley-Davidson	140	T; R
Triumph	97	A; T; R; S

Source: ACAP – Associação Automóvel de Portugal

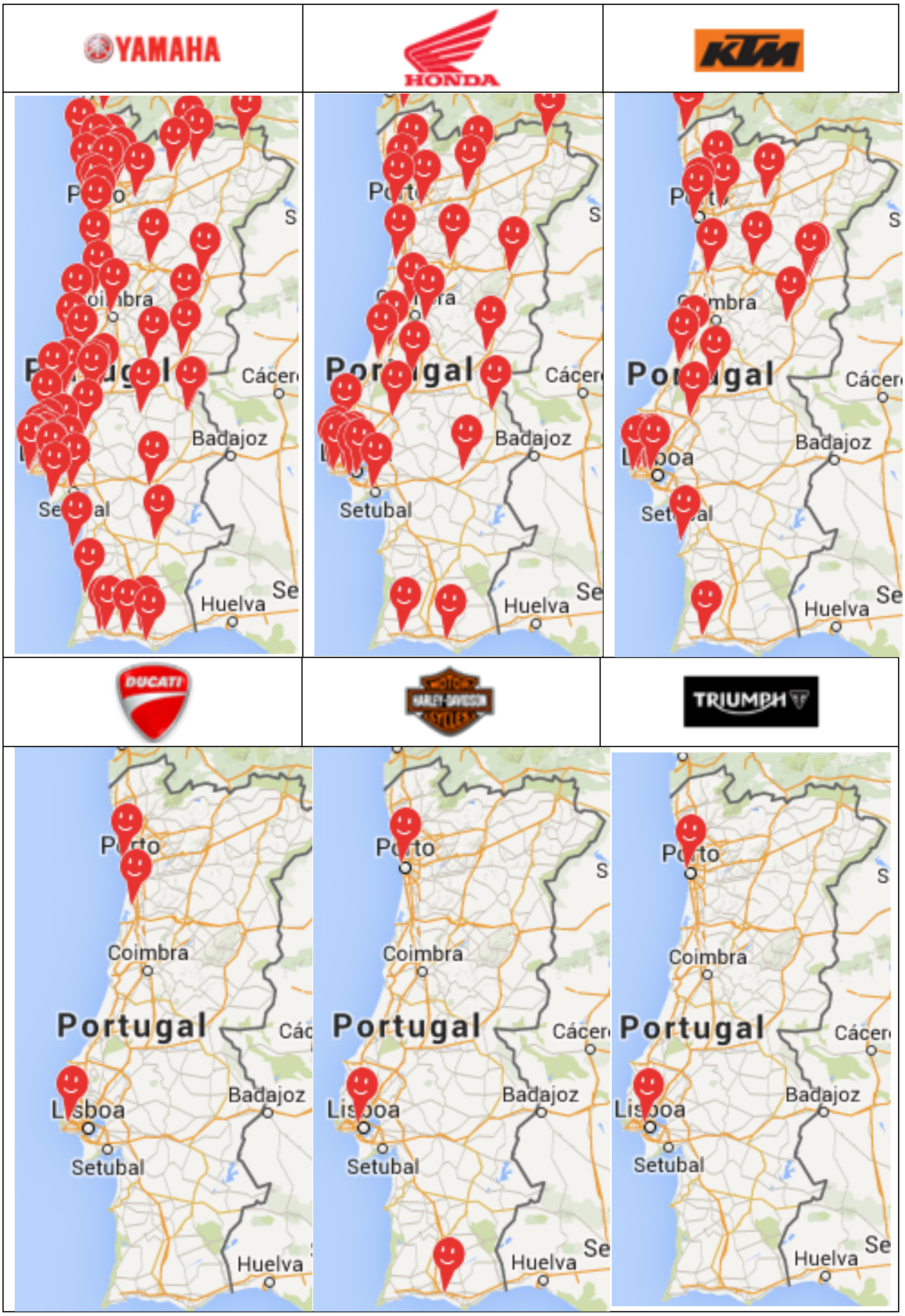
***These values relate to sales from 2nd and 3rd segment**

**** A – Adventure; T – Tour; R – Roadster; S - Sport**

Exhibit 3

Location of competitors' dealerships

Source: research done by case author, based on industry publications



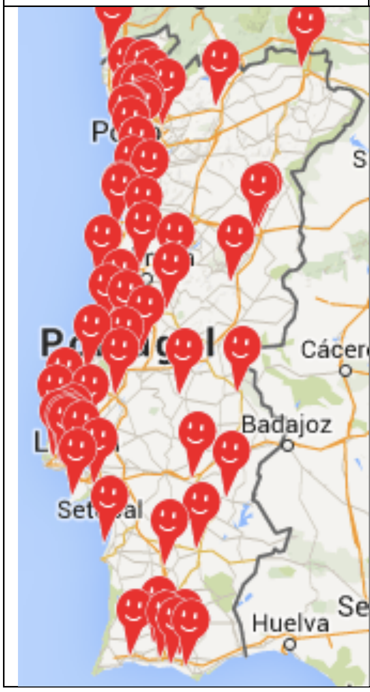
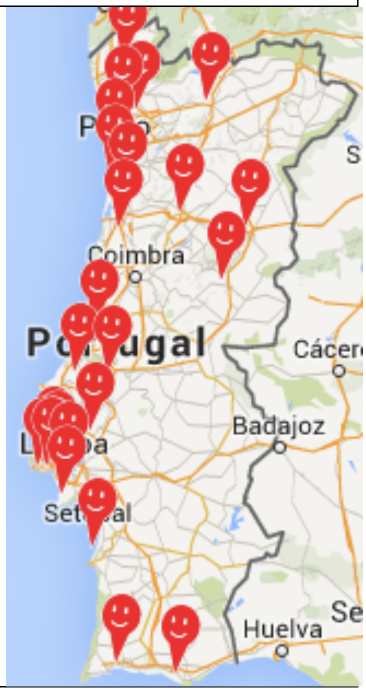
SUZUKI	Kawasaki
	

Exhibit 4

Decision factors when choosing a Dealership where to buy a motorcycle

Question	Importance: Not at all	Not important	Indifferent	Very important	Crucial	Mean
Location (Distance)	22,11%	26,34%	27,33%	22,98%	1,24%	2.53
Price	0,00%	3,11%	6,83%	58,39%	31,68%	4.19
Relation with salesman	6,21%	4,97%	19,88%	45,96%	22,98%	3.75
Feedback	4,35%	4,97%	19,88%	54,66%	16,15%	3.73

Source: survey carried out by the case author

Exhibit 5

Sales Top 6 - 2014 - by segment and model

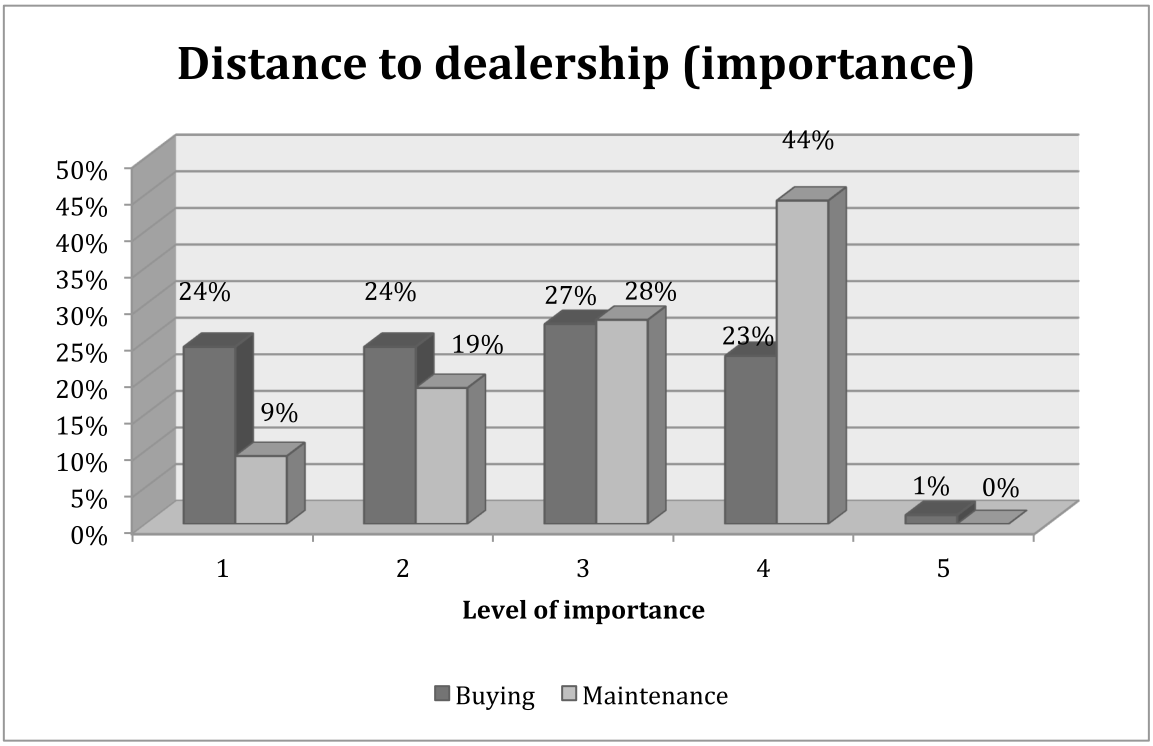
Segment	Rank	Model	Unit Sales	Price
0	1	HONDA PCX 125	2092	2 750,00 €
	2	KEEWAY SUPERLIGHT 125	862	2 070,00 €
	3	SYM GTS 125	555	3 099,00 €
	4	HONDA JC40 (CBF 125)	419	2 649,00 €
	5	KEEWAY K69 (RKV 125)	357	2 140,00 €
	6	SYM WOLF 125	317	2 299,00 €
1	1	HONDA PC45 (CB500)	84	5 350,00 €
	2	SYM GTS 300	68	4 699,00 €
	3	YAMAHA X-MAX 400	62	6 095,00 €
	4	HONDA PC46(CB500XA)	52	6 300,00 €
	5	HONDA NSS300A FORZA	51	5 450,00 €
	6	KAWASAKI C4	50	8 900,00 €
2	1	HONDA RC72 (NC750X)	495	7 100,00 €
	2	YAMAHA MT-07	310	5 995,00 €
	3	HONDA RC63 (NC700X)	80	6 750,00 €
	4	HONDA NC750D	61	7 550,00 €
	5	BMW E8GS (F 700 GS)	55	9 453,00 €
	6	HONDA RC70 (NC750S)	48	7 550,00 €
3	1	BMW R 1200 GS	345	16 303,00 €
	2	BMW E8GS (F 800 GS)	96	11 453,00 €
	3	YAMAHA MT-09	82	7 995,00 €
	4	BMW R 1200 RT	59	18 253,00 €
	5	BMW R1ST (R NINE T)	54	16 003,00 €
	6	YAMAHA XTZ 1200A SUPER TENERE	47	14 495,00 €

Source: research done by the case author, based on industry's publication data

Exhibit 6

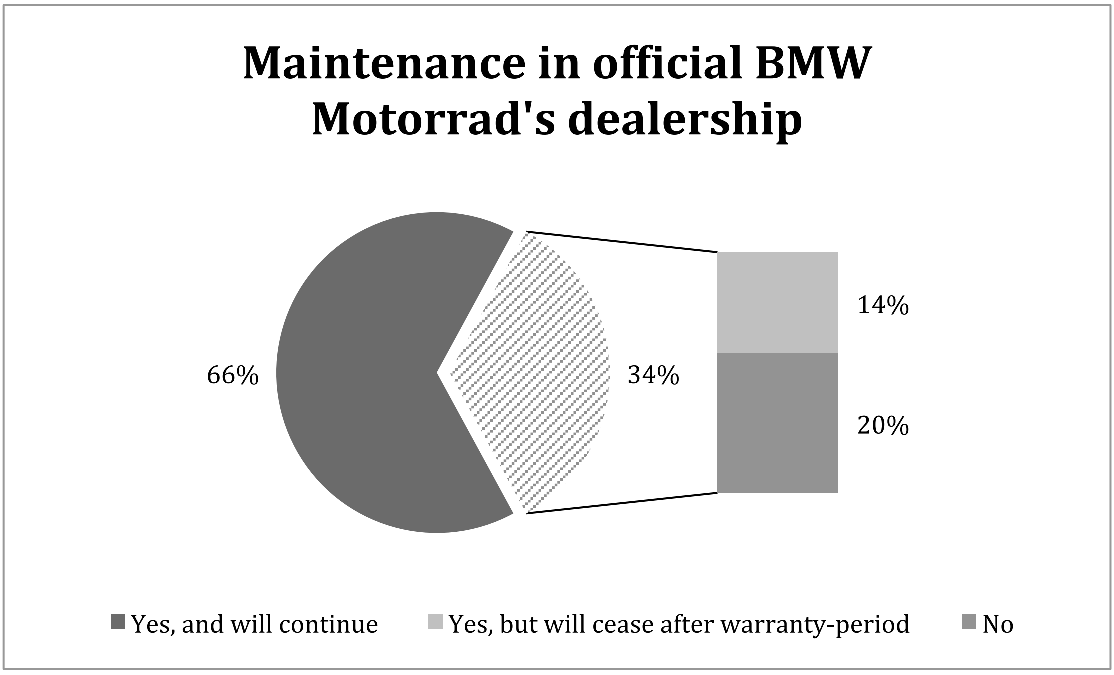
Importance of factor "Distance" when for buying or maintenance purposes

Scale: 1 to 5 - Less to most important



Source: Survey carried out by the case author

Exhibit 7



Source: Survey carried out by the case author

Exhibit 8

Decision factors for maintenance services

Price			Qualification		
Not Important	Very Important	Crucial	Not Important	Very Important	Crucial
16%	58%	26%	9%	47%	44%

Source: survey carried out by the case author

Exhibit 9

Top competitors by category

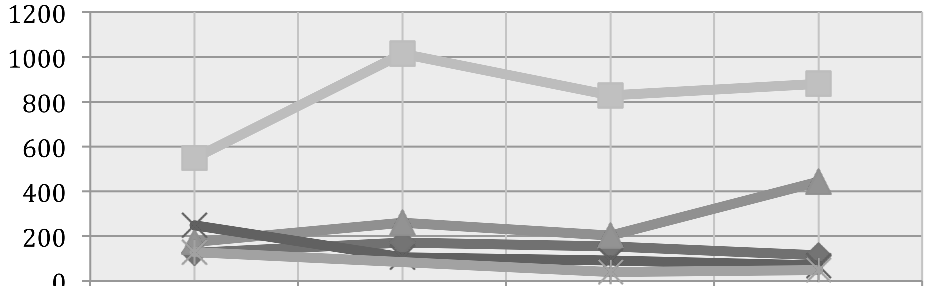
	BMW Model	Seg.	Price	Units Sold	Direct Competitors	cc	Seg.	Price	Units Sold	Units Diff.
SPORT	S 1000 RR	3	17 953,00 €	27	APRILIA RK (RSV4)	999	3	17 771,00 €	7	-20
					DUCATI H8 (1199 PANIGALE)	1198	3	21 399,00 €	17	-10
					HONDA SC59 (CBR1000RR)	999	3	15 900,00 €	5	-22
					KAWASAKI ZXT00 (NINJA ZX-10R)	998	3	15 990,00 €	20	-7
					SUZUKI GSX-R 1000	999	3	16 096,00 €	7	-20
					YAMAHA YZF-R1	998	3	18 995,00 €	4	-23
	K 1300 S	3	17 753,00 €	2	HONDA SC63 (VFR1200 FD)	1237	3	17 300,00 €	2	0
					KAWASAKI ZXT40 (ZZR 1400)	1441	3	16 480,00 €	9	7
					SUZUKI WVCK (GSX 1300 R)	1340	3	16 096,00 €	18	16
	HP4	3	-							
TOUR	K 1600 GTLE	3	31 203,00 €		HARLEY-DAVIDSON F. CVO U. LIMITED			41 000,00 €	3	3
					HONDA SC68 (GL 1800 GOLDWING)	1832	3	30 000,00 €	7	7
	K 1600 GTL	3	24 403,00 €	8	HARLEY-DAVIDSON F. D. S. G. C.			15 900,00 €	1	-7
	K 1600 GT	3	22 303,00 €	28	KAWASAKI ZGT40 (GTR 1400)	1352	3	17 860,00 €	8	-20
	R 1200 RT	3	18 253,00 €	59	HONDA PANEUROPEAN 1300	1261	3	20 700,00 €	6	-53
	F 800 GT	3	11 253,00 €	11	HONDA NT700V DEAUVILLE	680	2	11 000,00 €	5	-6
ROADSTER	K 1300 R	3	16 203,00 €	0	KTM 1290 SUPERDUKE	1301	3	17 300,00 €	7	7
	R 1200 R	3	13 953,00 €	7						
	S 1000 R	3	13 253,00 €	22	DUCATI M6 (MONSTER 1200)	1198	3	13 549,00 €	13	-9
					HONDA SC60 (CB 1000 R)	998	3	11 800,00 €	14	-8
					KAWASAKI Z1000 SX	1043	3	13 475,00 €	11	-11
					YAMAHA FZ1 FAZER	998	3	12 650,00 €	1	-21
					YAMAHA MT-09	847	3	8 495,00 €	82	60
					TRIUMPH SPEED TRIPLE 1050	1050	3	13 790,00 €	1	-21
	F 800 R	3	9 453,00 €	3	DUCATI M5 (MONSTER 821)	821	3	11 349,00 €	20	17
					HONDA CB 650 F	649	2	7 400,00 €	47	44
					KAWASAKI ZR 800 (Z800)	806	3	9 885,00 €	40	37
					YAMAHA FZ8 N	779	3	9 595,00 €	7	4
					YAMAHA MT-07	689	2	6 495,00 €	310	307
	R nineT	3	16 003,00 €	54	HARLEY-DAVIDSON XL 883N IRON	883	3	9 000,00 €	26	-28
					HONDA SC65 (CB 1100)	1140	3	12 500,00 €	8	-46
					TRIUMPH BONNEVILLE T100	865	3	10 490,00 €	26	-28
					YAMAHA XJR 1300	1251	3	10 495,00 €	3	-51
ADVENTURE	R 1200 GS	3	16 303,00 €	276	DUCATI MULTISTRADA 1200	1198	3	17 299,00 €	30	-315
	R 1200 GS Adv.	3	17 553,00 €	69	HONDA SC70 (VFR1200XD)	1237	3	14 500,00 €	8	-337
					KTM 1190 ADVENTURE	1195	3	16 840,00 €	27	-318
					TRIUMPH TIGER 1200	1215	3	16 250,00 €	5	-340
					YAMAHA XTZ 1200A SUPER TENERE	1199	3	14 495,00 €	47	-298
					KAWASAKI LZT00A (VERSYS 1000)	1043	3	12 985,00 €	8	-337
	F 800 GS	3	11 453,00 €	90	HONDA RC80 (VFR800X)	782	3	12 300,00 €	3	-93
	F 800 GS Adv.	3	12 703,00 €	6	TRIUMPH TIGER 800	800	3	11 265,00 €	30	-66
	F 700 GS	2	9 453,00 €	55	HONDA RC72 (NC750X)	745	2	8 000,00 €	495	440
					HONDA RD15 (XL 700VA TRANSALP)	680	2	7 000,00 €	1	-54
					KAWASAKI LE650 (VERSYS)	649	2	8 890,00 €	12	-43
	G 650 GS	2	7 940,00 €	15	YAMAHA XT 660R	660	2	6 860,00 €	6	-9
	G 650 GS Sertão	2	7 940,00 €	4	YAMAHA XTZ 660 TENERE	660	2	7 695,00 €	25	21

Source: research done by the case author, based on industry's publications data

Exhibit 10

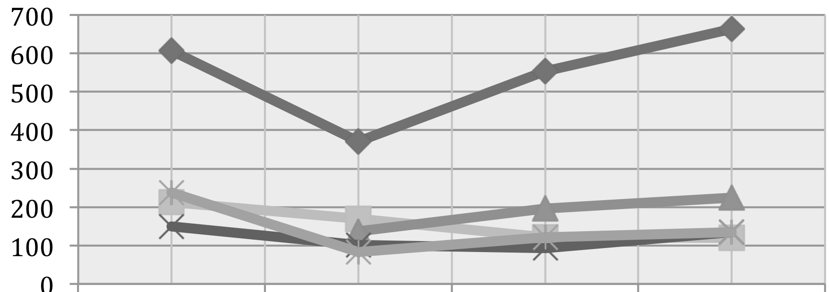
Unit sales per year and segment - TOP 5

2nd Segment



	2011	2012	2013	2014
BMW	124	170	155	114
Honda	548	1015	827	880
Yamaha	173	259	202	442
Suzuki	249	105	91	69
Kawasaki	128		38	49

3rd Segment



	2011	2012	2013	2014
BMW	607	370	554	663
Honda	212	170	122	119
Yamaha		137	196	224
Ducati	149	102	93	135
Harley-Davidson	238	83	121	134

Source: research done by the case author, based on ACAP - Associação Automóvel de Portugal publications.

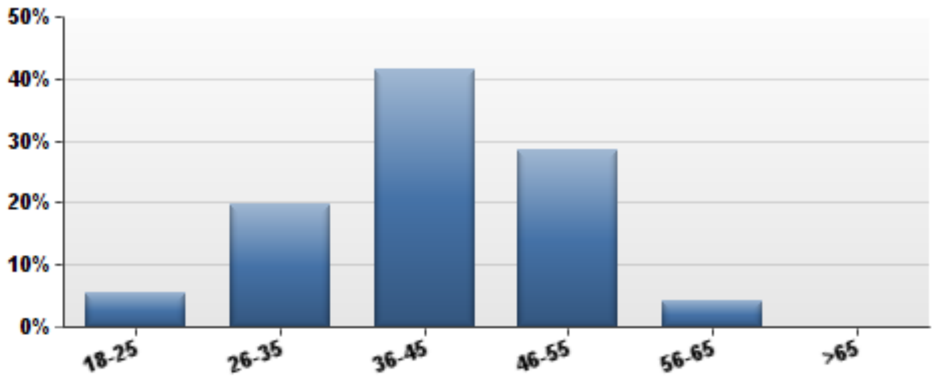
Exhibit 11

World's most valuable brands - Source: Forbes -2013 Ranking

Rank	Brand	Brand Value ($bil)	1-Yr Value Change (%)	Brand Revenue ($bil)	Company Advertising ($mil)	Industry
1	Apple	124.2	19	170.9	1,100	Technology
2	Microsoft	63.0	11	86.7	2,300	Technology
3	Google	56.6	19	51.4	2,848	Technology
4	Coca-Cola	56.1	2	23.8	3,266	Beverages
5	IBM	47.9	-5	99.8	1,294	Technology
6	McDonald's	39.9	1	89.1	808	Restaurants
7	General Electric	37.1	9	126.0	-	Diversified
8	Samsung	35.0	19	209.6	3,818	Technology
9	Toyota	31.3	22	182.2	4,200	Automotive
10	Louis Vuitton	29.9	5	9.7	4,707	Luxury
11	BMW	28.8	4	81.3	-	Automotive
12	Cisco	28.0	4	47.1	196	Technology
13	Intel	28.0	-9	52.7	1,900	Technology
14	Disney	27.4	19	23.6	2,600	Leisure
15	Oracle	25.8	-4	38.3	79	Technology

Exhibit 12

Age of surveyed people that own a BMW motorbike



Source: Survey carried out by the case author

Exhibit 13

Professions of BMW motorcycles owners

Profession	%
Military	4%
Senior Managers of Public Administration and CEO's	14%
Scientific and Intellectual Experts	30%
Technicians	18%
Administrative Staff	8%
Services' professionals and Salesmen	20%
Agriculture and Fisheries professionals	0%
Workers and Craftsmen	4%
Machinery operators	0%
Unqualified labour	1%
Student	2%

Source: survey carried out by the case author

Exhibit 14

Annual household's net income of a BMW motorcycle owner (values in EUR)

	Annual household's net income						
Value	< 18.000	18.000 - 30.000	30.000 - 50.000	50.000 - 72.000	72.000 - 108.000	108.000 - 144.000	> 144.000
%	20%	28%	25%	13%	10%	2%	2%

Source: survey carried out by the case author

Exhibit 15

Source: survey carried out by the case author

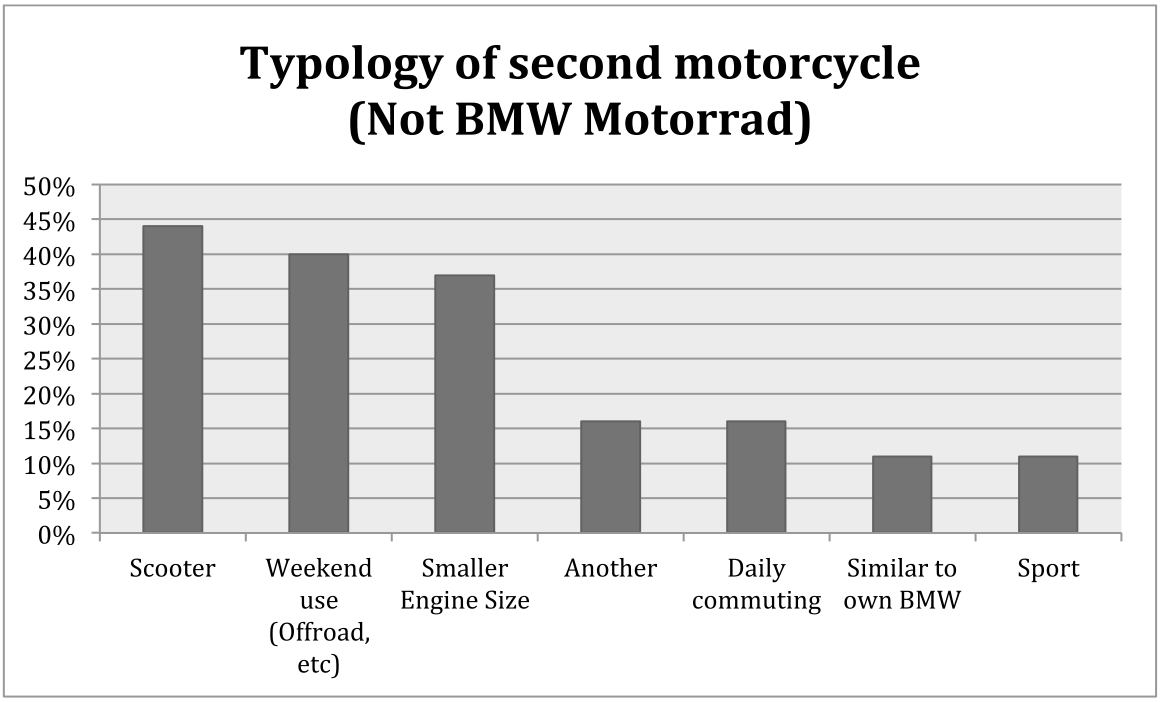


Exhibit 16

Source: survey carried out by the case author

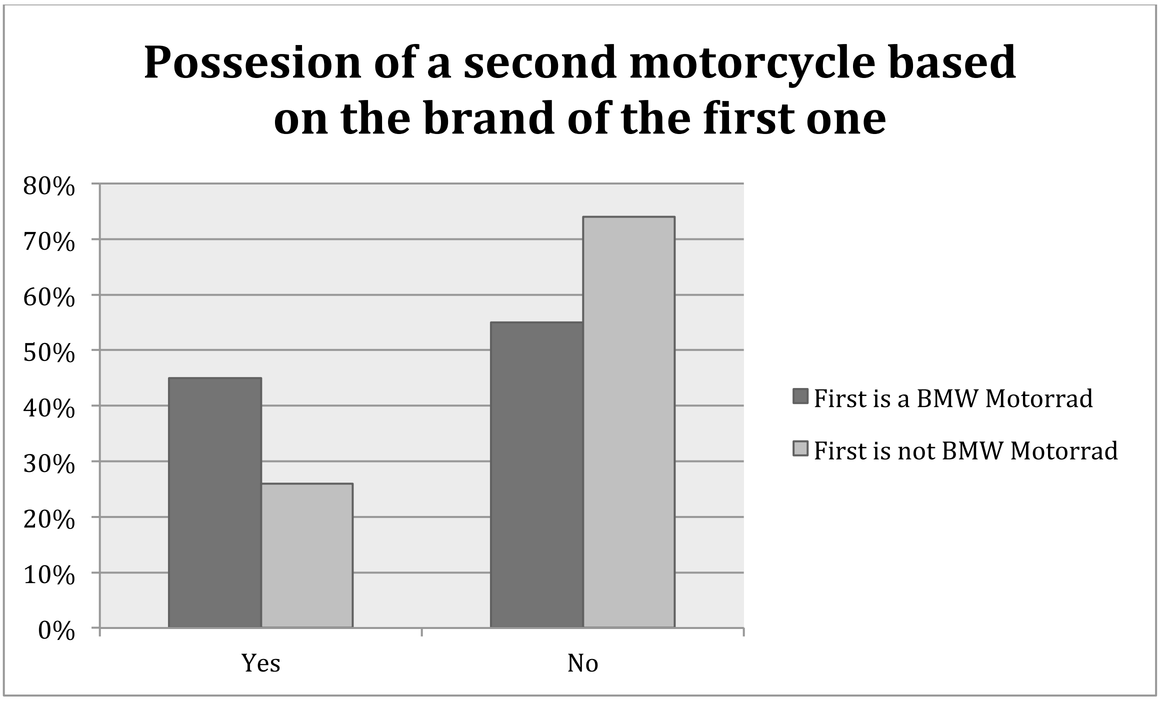


Exhibit 17

Source: survey carried out by the case author

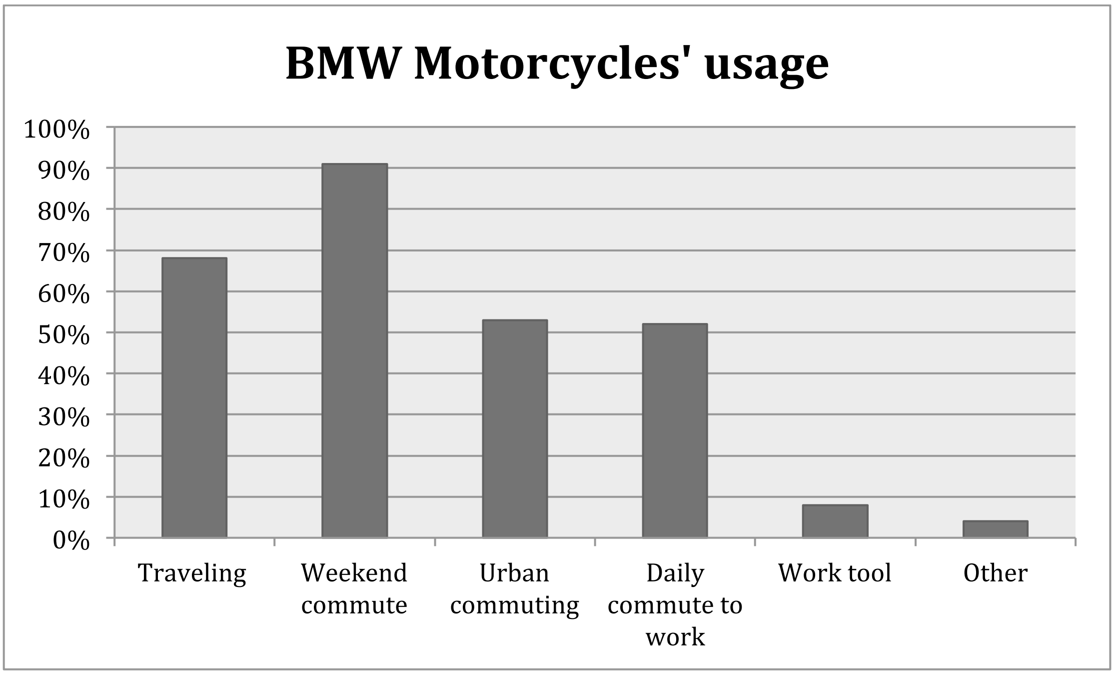


Exhibit 18

Source: survey carried out by the case author

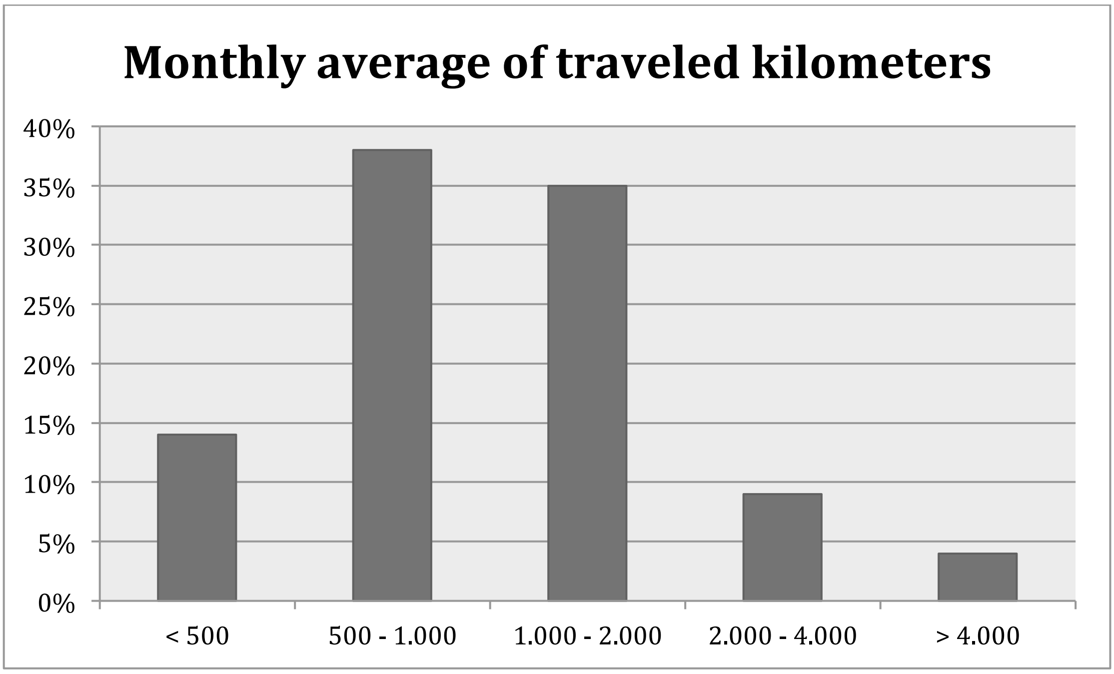


Exhibit 19

Source: survey carried out by the case author

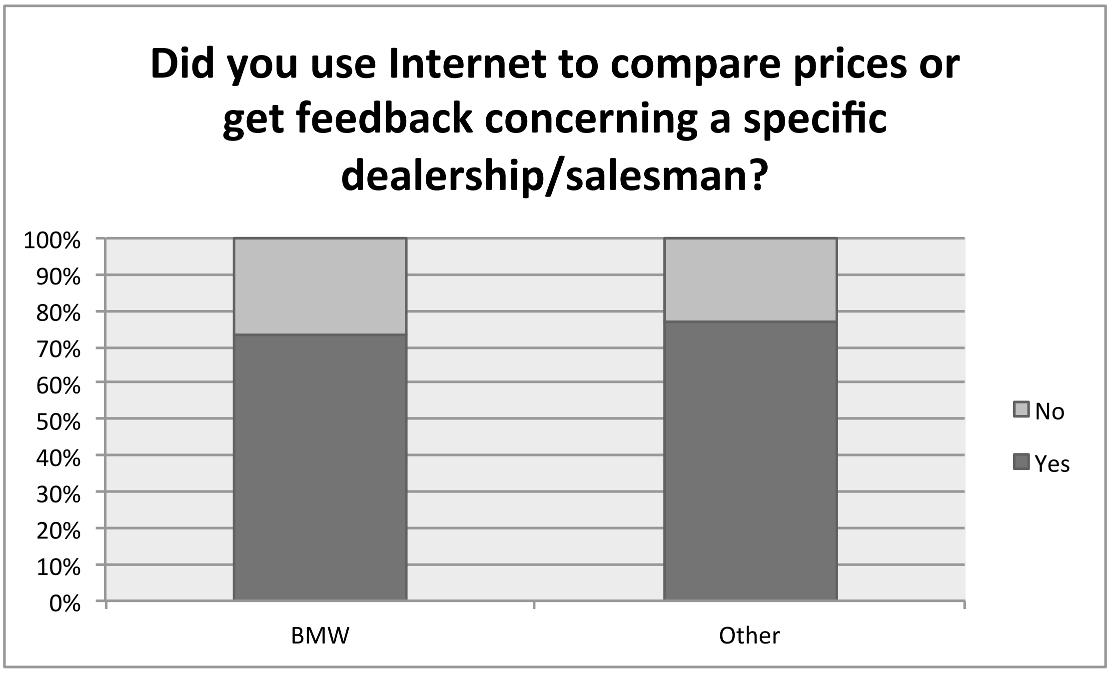


Exhibit 20

Source: research done by the case author based on industry publications' data and data provided by BMW Motorrad Portugal. Some values are disguised due to confidentiality reasons.

Model	R 1200 GS
Demand	D = 856 - 0,036P

	BMW AG	BMW Motorrad Portugal	Dealership	Final Customer
Selling Price	10 000,00 €	C	P	-n.a.

The presented demand curve was estimated by the case author and is intended to act merely as a practical indicator to facilitate the resolution of proposed exercises. Any resemblance to the true demand curve is purely coincidental.

The demand curve here presented was estimated, and then simplified, taking into account historical sales data provided by both ACAP - Associação Automóvel de Portugal and BMW Motorrad Portugal, and the Price Elasticity of Demand (PED) of a typical durable good (Ford vehicle, PED = -2.8; in Goodwin; Nelson; Ackerman; Weisskopft (2009). p.124). The plotted values and optimal prices derived from this demand curve are not supposed to comply with the actual practiced prices.

Teaching Note

This case was created by José Maria Barreiros under the supervision of Professor Paulo Marcos.

The main purpose of this case study is to act as a tool and a basis to in-class discussion. It should not be taken as a source of primary data or any kind of illustration of effective management. Despite the disguise of confidential data, the essential ordinary relevance of data remains and the published facts are based on real events and experiences.

In order to better understand the assumptions made along the case, a set of readings are recommended:

- Progressive Grocer (1995), April.
- Bell, D., T. Ho and C. Tang (1998), "Determining where to shop: fixed and variable costs of shopping," Journal of Marketing Research, Vol. 35, August, 352-369.
- Albuquerque, P. and Bronnenberg, B., J. (2008), "Market areas of car dealerships", September.
- Zettelmeyer, F., F.S. Morton, and J. Silva-Risso (2007), "How the Internet Lowers Prices: Evidence from Matched Survey and Automobile Transaction Data," Journal of Marketing Research, Vol. 43 (May), 168-181

Synopsis

The motorcycling market in Portugal is being subject to several changes in the last couple of years. These changes, mainly related to fiercer competition and increasing demand, are the basis for the forecasting process for the next years.

With a limited number of dealerships, decidedly below the competitors' number, the challenge presented to Carlos Martins, the BMW Motorrad's head-manager, was where to open a new dealership, with the possible locations being the north or south of Portugal.

In order to successfully reach the solution of this dilemmatic situation, BMW Motorrad had to deeply analyze each market and its special characteristics. This analysis was done taking into account not only the BMW Motorrad's objectives, target population, segmentation and positioning, but also competitors' intentions and market's trends.

Alongside that analysis, the consideration of a new paradigm regarding the Sales and After-sales distinction guided the writing of the case study and the desired goals' achievement, as also a possible way of increasing profits without major modifications in the actual BMW Motorrad Portugal's structure, namely location and pricing strategies.

Literature review

The location of a dealership is undoubtedly closely related to what the main company wants to achieve with its long-term strategies and its specific short-term objectives, but it has also a lot to do with the characteristics of the market, not only demographically speaking but also when thinking about its geographical, social, behavioral and psychographic propensities. Given the high financial investment needed for a new dealership to be opened, these questions must be taken into account and different environments must be considered.

Demand based on location

In fact, industry analysis has shown that not only a great percentage of the variation related to the chosen store-to-buy is justified by the location of the store (Progressive Grocer, 1995), but also that managers, in this case the dealerships' managers, tend to spend great amounts of time and effort in order to increase the store in-flux of consumers, relying on the development of its own attractiveness attributes (Bell et al., 1998), that must match their market's characteristics and propensities.

Despite the fact that the process of choosing a place to buy a product, in this case the dealership to buy a motorcycle, is deeply justified by the location of the store, the truth is that this location, that ultimately is the distance from each buyer to the seller itself, finds high levels of disutility, geographically limiting the preferences to close located substitutes and creating a handling area where each dealership can get its own demand (Albuquerque et al., 2008).

When analyzing the critical factors that have impact on the decision-making process of where to buy a product, namely the weight of distance and the weight of price, there is great evidence that consumers firstly rank the distance factor in comparison with the price of the product. In fact, if a dealership reduces its products' price by 10%, it only gains a market expansion in a radius of 5 miles (Albuquerque et al., 2008).

Wide-web information

Thinking in a broad and general manner, it would be quite straightforward to believe that Internet in the last years would act like a positive factor to dealerships that, although practicing the lowest price, could not get the desirable demand. It would be easily assumed that buyers would use information on the Web to choose among different dealerships, and the distance factor would see its importance being heavily reduced. Zettelmeyer (2007) found evidence that those general assumptions might not be completely right. Despite the fact that buyers actually search for product characteristics, make price comparisons and communicate with sellers, buyers cannot decrease prices merely by decreasing search costs, which ultimately is what all buyers can do through the Internet.

The really interesting part of his study was that it all comes to the reservation price that dealerships do have when negotiating with consumers. Since dealer's invoices heavily rely on its reservation price for a certain product, buyers that have better information about the dealers will end to also have a better perception of what would be the dealer's true reservation price and to which limits would a dealership be able to negotiate.

On the one hand Zettelmeyer (2007) shows that even on offline industries, such as automotive retailing, Internet does have some sort of power, but on the other hand we can trustingly assume that alongside representing some sort of threat to dealerships, the distance factor will continue to be the variable that buyers consider the most when making decisions about where to buy a certain product.

Sources:

- Progressive Grocer (1995), April.
- Bell, D., T. Ho and C. Tang (1998), "Determining where to shop: fixed and variable costs of shopping," Journal of Marketing Research, Vol. 35, August, 352-369.
- Albuquerque, P. and Bronnenberg, B., J. (2008), "Market areas of car dealerships", September.

- Zettelmeyer, F., F.S. Morton, and J. Silva-Risso (2007), "How the Internet Lowers Prices: Evidence from Matched Survey and Automobile Transaction Data," Journal of Marketing Research, Vol. 43 (May), 168-181

Relevant Theory

Throughout the case, several tips take place in order to point students' thoughts to the relevant theory. This theory is grounded on the following subjects:

- 5 P's (Product, Price, Promotion, Place, People)
- STP Marketing Model
- SWOT Analysis
- Market Segmentation
- Decisive factors for the location of a dealership in an automotive industry
- Location's strategies taking in consideration the power of Internet
- Pricing collaborative strategies and its marketing tools, recurring to Internet propensities.

Teaching Objectives

With a teaching purpose, the main objective of this case study is to allow an in-class discussion guided upon a set of a concepts and ideas. These would be:

-Use of Dolans' 5c's

-Consumer behavior concerning durable goods

-Relevance of location of dealership and after-sales' services on distribution decisions

-Role-played by Internet in buying decisions' processes of durable goods

-Pricing strategies in the supply chain with a maximizing profits' perspective

Class Plan - Assignment Questions

1. Briefly summarize BMW Motorrad Portugal's structure and situation within the Portuguese motorcycling market (regarding each segment's ranking). Use Dolan's 5C's to answer this question.

2. What are BMW Motorrad Portugal's main strengths and weaknesses over its competitors? Use a SWOT analysis to answer this question.
3. Define the target population of BMW Motorrad Portugal and compare it with the competitors' target. What are the key aspects influencing the dealership's location?
4. Analyze the advantages and disadvantages for both dealerships' locations, north or south of Portugal. What would be the best decision?
5. What is the role of Internet in the decision of where to buy a motorcycle? Does that have impact on your previous decision?
6. What advice would you give to Carlos Martins?
    a. Regarding the future expansion of dealerships, marketing communication and pricing collaborative strategies across BMW Motorrad's network of dealerships?
    b. Compare two different scenarios: Actual policy of pricing and a collaborative strategy (to simplify assume only one dealership and one motorcycle, R 1200 GS, see **Exhibit 20**). Calculate for both scenarios the optimal prices and profits for BMW Motorrad Portugal and the dealership. What would be your recommendation?

Analysis

Assuming a timeline of 90 minutes to accurately analyze the case study, there are six questions to be answered with the support of this case study. Those questions are divided into two categories:

1. External and Internal Analysis (Questions 1 to 3)
2. Recommendations (Questions 4 to 6). Question 5 and 6 might be addressed to a more instructed audience (MBA, Executives, etc) with a fully discussion purpose.

Question 1

The main objective of this question is to force students to fully comprehend the context where BMW Motorrad Portugal finds itself in, regarding the case study situation. It is expected that the student may be able to start defining and shaping the company's strategies towards consumers.

Company

BMW Motorrad Portugal is the official subsidiary in Portugal of the brand BMW Motorrad. It is responsible for the full operation of Sales and After-sales related to the Portuguese market. At the date of the dilemma it had nine dealerships distributed across the entire country, all of them accumulating both operations, Sales and After-sales.

BMW Motorrad, specifically BMW Motorrad Portugal, sells motorbikes with engine-sizes that range between 600 cubic centimeters (cc) and 1600cc. Its motorcycles are divided in four main categories: Adventure, Tour, Roadster and Sport.

Collaborators

Dividing this category in three main groups, we have distributors, suppliers and alliances. The distributors of BMW Motorrad Portugal are the nine dealerships located across the entire country. They work as both retailer and distributor collaborators in the supply chain of BMW Motorrad Portugal. The supplier partner of motorcycles for BMW Motorrad Portugal is the BMW AG in Germany, the main headquarters of the firm as a multinational company. As alliances we can consider the BMW Financial Services.

Customers

The Portuguese motorcycling market is divided in four segments: 0, 1, 2 and 3, by ACAP, Associação Automóvel de Portugal, the Portuguese regulator for the automobile industry, regulating from production and manufacturing processes to retailing stages.

The main drivers behind each purchase of a BMW Motorcycle are related with the aspects stated in **Exhibit 17** of weekend commute and traveling purposes. Having that in mind, the benefits that each consumer is seeking when buying a BMW Motorrad motorcycle, are related to both tangible and intangible drivers. In the tangible set we have aspects like reliability, quality of construction, concern for safety, riding comfort and performances. On the other hand, in the intangible set of aspects, we have the pursuit for status and lifestyle's symbols, the perceived connection with the BMW Group brand and consequent trust and loyalty.

The dealerships work both as retail channels and sources of information for customers, alongside with Internet that is the main source of information from which customers satisfy their questions and make comparisons.

BMW Motorrad Portugal's customers follow a buying process of careful comparison between not only motorcycles from the same brand and from different brands, but also of different dealerships within BMW Motorrad Portugal's network of dealerships.

Competitors

BMW Motorrad’s competitors are the ones competing in segments 2 and 3, the segments where BMW Motorrad also competes. Alongside with that segmentation, BMW Motorrad has specific competitors within each of the four categories previously stated.

Regarding the third segment, BMW Motorrad Portugal despite having most of its motorcycles with a price above the segment’s average is the undeniable leader with almost three times more unit sales than the second best player in that segment, YAMAHA (see **Exhibit 10**). The great majority of BMW Motorrad motorbikes belong to this segment, not only in unit sales (663 units vs 114 units; 2014) but also in product characteristics with 19 bikes fulfilling the third segment’s characteristics and only three in the second segment (see **Exhibit 9**).

For what comes to the second segment, BMW Motorrad Portugal is nowadays in the third position, and alongside with being far from the unit sales of the two best players, is losing ground to its competitors since that the market grew 20% from 2013 to 2014, in that segment, and BMW Motorrad Portugal did lose 26% in unit sales related to 2nd segment (see **Exhibit 1** and **Exhibit 10**). That was mainly due to BMW Motorrad Portugal’s strongest competitor in the second segment, and market’s greatest player, the HONDA NCX750 X (see **Exhibit 9**).

Context

Regarding the context where BMW Motorrad Portugal develops its activities, we can highlight the regulatory and legal environment that, from a couple years before the time of the case study's dilemma, certifies a car driver with a valid car license to legally drive motorcycles up to 125 cubic centimeters. This law caused an increase in sales unit in the upper segments, mainly due to drivers wanting a bigger and more versatile motorcycle.

Also the Internet plays an important role in the way customers find information and get in touch with dealerships, acquiring this way a distinguished position in the context where BMW Motorrad Portugal finds itself in, directly impacting demand and sales turnover to competitors.

Question 2

With this question, the student is expected to fully analyze the factors of competitive advantage and the disadvantages over its competitors. To do so, the student is expected to use a SWOT analysis. By developing a SWOT matrix and further understanding the BMW Motorrad Portugal's business, the student will be able to answer the following questions regarding company's positioning and segmentation strategies.

Strengths

- Internationally recognized brand - The BMW brand is the 11th most valuable brand in the world (see **Exhibit 11**). That gives BMW Motorrad the perceived trust, awareness and loyalty gained from the car industry.
- Known for Security/Safety Systems - It was the first company in the World to directly address the safety and security issues related to the motorcycling experience. It is known for the introduction of security systems from stock like ABS, combined braking and traction control.
- Premium product - BMW Motorrad Portugal is the only high-sales-volume's brand selling a premium product, with emphasis on quality and details. The other motorcycle brands selling a general premium product are Ducati, Harley-Davidson and Triumph, and those don't have the needed expression in the Portuguese market in order to represent a fierce threat.

Weaknesses

- Price - When compared to the direct competitors BMW Motorrad motorcycles are generally more expensive and require more financial capacity from its buyers. To people that don't value so much BMW Motorrad's premium characteristics, this fact can be seen as a weakness.

Opportunities

- Urban mobility - People are looking for solutions for their everyday-life's problems such as transportation and way of travel to work. A motorcycle is, in the most cases, the more reasonable solution due to its low costs of maintenance, travel and acquisition (when compared to a car).

- Relationship marketing - Relying on the survey carried out by the case author (see **Exhibit 4**), the factor that a BMW Motorrad buyer values the most after price, is related with the dealerships' salesman. Being that said, BMW Motorrad could recognize the long-term value of relationships with its buyers. This type of marketing accentuates the importance given to customer retention and could act as a way of preventing that a BMW costumer would think about buying a motorcycle from another brand.

Threats

- Competitors' prices - When compared to BMW's motorcycles, competitors' prices are more attractive to a potential buyer (see **Exhibit 9**). If not presented in the right manner, BMW Motorrad's strengths can easily pass unnoticed by the customers, and the factor price will prevail, resulting in loss of buyers to BMW Motorrad Portugal.

Question 3

The segmentation of BMW Motorrad's target group can be done following two main factors:

Demographic - According to demographic segmentation, and taking into account the survey carried out by the case author (see **Exhibit 12**, **Exhibit 13** and **Exhibit 14**), more than 50% of the surveyed BMW Motorrad owners have an annual household's net income higher than 30,000.00 EUR, a value that is distant from the average annual net income in Portugal, 11,784.00 EUR (source: Eurostat). Those income levels are highly related to the most common professions of BMW motorcycles owners within the survey sample, with professions in the upper segment of the professions pyramid such as company's CEOs, senior managers, intellectual experts and technicians. These two segmentations somehow reduce the age's variable to two main groups, 36-45 and 46-55 years of age, and another one that should not be dismissed of 26-35 years of age, the ones that are currently feeding the 2nd segment's market sales.

Behavioral - Due to acknowledged characteristics of BMW motorcycles such as high-mileage travellers, adventurous and exciting bikes, a potential buyer of a BMW motorcycle tends to think about them as means to reach a dream trip, live different experiences or to explore the world. BMW owners are more likely to be medium to heavy users of their motorcycles (see **Exhibit 18**) and that is justified not only by the BMW motorbikes' features itself but also by the demographic characteristics of the common BMW Motorrad user that allow that way of living and expenditures. The average age of a BMW Motorrad user (see **Exhibit 12**) also tell us that the tendency is for them to be regular users in the motorcycling world and not a first-time user, once that it is reasonable to assume that they had other motorcycles before.

When comparing the BMW Motorrad's target with the competitors' one we see that it highly depends on the category we are analyzing (Adventure, Tour, Roadster or Sport). The factors that are shared by all categories are related to principles like Travel, Premium and Quality. Having that said, competitors gain advantage towards BMW Motorrad when the user privileges factors like price or every-day-usage instead of the types of usage presented in **Exhibit 17**.

Question 4

North

Advantages

- Population density (see **Figure 3**). The north region of Portugal, specifically the area around Porto, is an area of high density of population. In fact, it has more density than the country's capital's region, Lisbon. This can translate into high levels of population flux around the dealership, leading into high levels of sales.
- Concentration of competition (see **Exhibit 3**). The heavy presence of BMW Motorrad Portugal competitors in the north of the country, in contrast with the scarceness of the south region, can act as a positive factor to choose this location. With a large number of competitors in a short distance from the potential BMW Motorrad's dealership, BMW Motorrad Portugal has the possibility of showing their range and attributes in order to conquer new customers, relying on an effective and real perception from them. In order words, since that there is a strong presence of competitors in that region, BMW Motorrad Portugal not only has the motivation of going there to mark its presence in the market, but also to be able to really and effectively show to

customers its strengths over its competitors.

Disadvantages

- Low-income levels (see **Figure 2**). When compared with the south region of Portugal, it is clear that the north region is one of Portugal's poorest. Being a premium product with high prices, this fact gains an important role in the decision.

South

Advantages

- High levels of relative financial affluence, in a large area (see **Figure 2)**. Although statistically it could seem that the dealership's south location could be a better one, due to the financial capacity of the region, the truth is that this fact is due to the low density of population.
- Low density of competitors (see **Exhibit 3**). In contrast with the North location's advantage, the South location can be an opportunity for BMW Motorrad Portugal to be the first-mover into that region and that way easily conquer a big portion of the market.

Disadvantages

- Low population density by squared kilometer (see **Figure 3**). It is a region of large farms, producing cork and products related to agriculture. There exist large properties, generating high volumes of production, but the ratio of density of population becomes quite low since that single owners possess big properties, as opposed to the north of Portugal where there are lots of people by squared meter due to a more urbanized structure.

The choice of dealership's location should be discussed in class in order to make sure that the student fully understood the advantages and disadvantages of each location. The final decision for the location of the new BMW Motorrad Portugal dealership should be the north of Portugal, with the high-density values justifying the decision. If, on the one hand, a product like a BMW motorcycle demands high levels of financial liquidity, justifying the choice of south region, on the other hand, we know that the statistical evidence of **Figure 2** is somehow not completely true because it does not take into account the fact that the financial liquidity of the region is allocated to a few property-owners.

Furthermore, BMW owners assign more importance to the factor "distance" when it comes for maintenance reasons, as opposed to buying purposes where they are willing to travel longer distances in order to buy such an emotional product like a motorcycle. This information tells us that the After-Sales' side of the equation deserves more importance. By saying that, the After-Sales processes should be the ones we should assure and since that customers are not willing to travel long distances for maintenance reasons, the new dealership should be opened in an area where the higher number of customers could be served, the area where density of population is higher, the north region of Portugal.

Moreover, the market opportunities for BMW Motorrad Portugal's growth emerges on the 2nd segment, since that they already are the undeniable leaders in the 3rd segment. Despite having the capability of also traveling medium distances, this segment is characterized by motorcycles that are great urban ways of transportation, with lower costs of maintenance and offer a multi-use and practical solution. This segment witnessed a growth of 20% from year 2013-2014 with more than 1600 units sold (see **Exhibit 1**). Deeply associated with urban and mean-of-transport concepts, it is natural that this segment may find more demand on more urbanized regions, with higher levels of population density, where the practical sense of a motorcycle is highlighted.

Question 5

While motorcycles' owners that do not have a BMW Motorrad tend to further query different dealerships in the moment of purchase than the BMW Motorrad ones (85% vs 70%, see **Exhibit 19**), the truth is that both values are surprisingly high for a market where the importance given to "Relation with salesman" is practically the same to the one given to "Price" (see **Exhibit 4**). That tells us that despite the existence of some sort of awareness and loyalty towards a specific salesman and their relationship, that does not stop customers to consult more dealerships and get proposals from different salesmen.

Having that in mind, and knowing that the use of Internet to compare prices or get feedback from specific dealerships reaches a value of near 75% in both realities, BMW Motorrad's owners and other brand's owners (see **Exhibit 19**), we observe that Internet has a vast power in the buying process of a potential customer. Considering that even comparing different proposals from different dealerships, customers will still end to give more importance to the relationship they have/built with a specific salesman/dealership, we can assume that the true power of Internet relies on the proposal's negotiation preparation, on the customer side. In other words, and taking into account the previous statement, despite knowing that Internet could eventually be a serious threat to dealerships under different circumstances, within the same brand or over different brands, the ultimate use that customers assign to Internet is the study of the reservation price of a specific dealership, taking into account a sample of proposals for the same, or a substitute, product, and then making their deliberations upon the proposed price by the primarily desired dealership, the one with which they have a relationship or the one they were directed/ recommended to (relying on feedbacks).

Question 6

a. The future expansion of dealerships should be taken into account with some precautions regarding the Sales versus After-Sales structures. Taking into account the previous questions and answers, the data obtained from the survey carried out by the case author and industry's data analysis, a future framework may pass by creating maintenance facilities with the ability of providing the essential and indispensable services, located across Portugal in areas where a dealership cannot be found, for example, within a 100 kilometers radius. By doing so, the aversion to the distance to After-Sales services (see **Exhibit 6**) could be minimized and some lost sales caused by competitors' presence in the countryside could be re-conquered, once that due to the lack of offer of maintenance services by BMW Motorrad Portugal in the countryside, competitors end to gain some advantage.

For what comes to communication strategies, and since that BMW Motorrad owners privilege the relationships with specific dealerships/salesmen, notwithstanding that the marketing communications should be centralized in order to correctly inform costumers about specific campaigns, new models launches and similar information in a professional and trustworthy manner, the communication strategy of BMW Motorrad Portugal should also leave the possibility for dealerships to individually show their character and build their trust relations with costumers. Clearly structuring the topics upon which dealerships can advertise or make campaigns could be an effective approach to this matter. Since that the collected data shows us that Internet plays a major role in the costumers' decision making processes (see **Exhibit 19**), some training courses upon this matter could be taken by dealerships in order to train them to know how, when and where to effectively implement their specific and individual advertising campaigns. With such importance given to Internet and dealerships' relations, it is mandatory to obtain as much positive value as possible from those variables, and as soon as possible in order to not lose ground to competitors.

Alongside with those training actions and expansion frameworks, BMW Motorrad Portugal could pursue a pricing strategy that would enable dealerships to totally acquire the willingness to pay from costumers. As stated before, although costumers do actually consult more than one dealership and ask for different proposals in the buying process, ultimately it only serves to equip them with the necessary tools to better negotiate the price and perceive the reservation price by the desired dealership where to buy their motorcycles. A possible solution could be to maximize the entire supply chain's profits (BMW Motorrad Portugal and each of the nine dealerships) by setting some ground rules to the pricing presented by each dealership.

Although a premium pricing strategy must be followed, emphasizing the premium characteristics of BMW Motorrad's motorcycles, alongside with a skimming pricing where not newly launched models can see its price virtually reduced, also a optional pricing strategy should be followed in order to maximize turnover from the optional extras that can be added to BMW Motorrad motorcycles, similar to the car industry.

Together with with those general strategies, some kind of collaborative pricing strategies between dealerships and BMW Motorrad Portugal could be achieved. Although competitor's prices would always finally dictate the maximum price practiced in the BMW Motorrad Portugal's network of dealerships, in order to not lose sales to competitors with an illusory colluded high price, and knowing that costumers do actually consult different proposals from different dealerships, some game-theory could take place, and a collaborative price could be prearranged and set, in order to maximize the chain's profit. This kind of arrangement would oblige the network of dealerships to perfectly communicate between them and with the headquarters, in order to positively reduce the costumers' ability to better negotiate with a specific dealership than with another one of the BMW Motorrad's network, while offering at the same time better prices for customers and greater profits for the entire supply chain.

b.

Variables: D - Demand; c - price from BMW Motorrad Portugal (BMW PT) to dealership; p - price to final customer

Scenario 1: Current pricing policy (not coordinated)

$D = 856 - 0{,}036\,p$

Dealership

$\Pi_{Dealership} = (p - c)(856 - 0{,}036\,p)$

$$\frac{\partial \Pi_{Dealership}}{\partial p} = 0 \Leftrightarrow 856 - 0{,}072p + 0{,}036c = 0 \Leftrightarrow p = \frac{856 + 0{,}036c}{0{,}072}$$

BMW PT

$$\Pi_{BMW\,PT} = (c - 10000)(856 - 0{,}036\,p)$$

$$= (c - 10000)\left(856 - 0{,}036\left(\frac{856 + 0{,}036c}{0{,}072}\right)\right)$$

$$\frac{\partial \Pi_{BMW\,PT}}{\partial c} = 0 \Leftrightarrow 428 - 0{,}036c + 180 = 0 \Leftrightarrow c = 16.888{,}89\,EUR$$

Profits

$$p = \frac{856 + 0{,}036c}{0{,}072} = \frac{856 + 0{,}036 \times 16.888{,}89}{0{,}072} = 20.333{,}33\,EUR$$

$$\Pi_{Dealership} = (p - c)(856 - 0{,}036\,p)$$
$$= (20.333{,}33 - 16.888{,}89)(856 - 0{,}036 \times 20.333{,}33)$$
$$= 427.110{,}97\ EUR$$

$$\Pi_{BMW\ PT} = (c - 10000)(856 - 0{,}036\,p)$$
$$= (16.888{,}89 - 10000)(856 - 0{,}036 \times 20.333{,}33)$$
$$= 854.223{,}18\ EUR$$

$$\Pi_{BMW\ PT\ +\ Dealership} = 1.281.334{,}15\ EUR$$

Scenario 2: Collaborative Strategy

$$\Pi_{BMW\ PT\ +\ Dealership} = (p - 10000)(856 - 0{,}036p)$$

$$\frac{\partial \Pi_{BMW\ PT\ +\ Dealership}}{\partial p} = 0 \Leftrightarrow 856 - 0{,}072p + 360 = 0$$
$$\Leftrightarrow p = 16.888{,}89\ EUR$$

$$\Pi_{BMW\ PT\ +\ Dealership} = (p - 10000)(856 - 0{,}036p)$$
$$= (16.888{,}89 - 10000)(856 - 0{,}036 \times 16.888{,}89)$$
$$= 1.708.444{,}44\ EUR$$

$Conclusion$: $1.708.444{,}44\ EUR > 1.281.334{,}15\ EUR$

With a collaborative strategy both parties, BMW Motorrad Portugal and dealership, are better off. This proves that even practicing a price (*p*) of 16.888,89 EUR (the optimal price in the second scenario, which is lower than the *p* in the first scenario), the profits would still be higher than the ones presented in the first scenario, the actual pricing policy of BMW Motorrad Portugal.

With this in mind, and knowing from the previous questions that BMW Motorrad Portugal customers are always looking for the best deal with a specific dealership by trying to know its reservation price, the second scenario of collaborative pricing strategy not only increases the supply chain's profits but also gives dealerships the ability to further satisfy their clients with a virtually reduced price. With the interval of prices to final customer of 23.333,33 EUR in the first scenario to 16.888,89 EUR in the second scenario, dealerships have the range of 6.444,44 EUR to conquer their clients, that ultimately valorize price the most (see **Exhibit 4**), and defeat the competitors' prices.

Considering the supply chain with nine dealerships and the BMW Motorrad Portugal headquarters, and assuming that the second scenario of collaborative pricing would be implemented, there would exist a strong incentive for a dealership to deviate from the collaborative situation. If a dealership opts to deviate and reduce its price, it can get all the demand for itself in the next period, and increase its short-term profits. With that deviation, the remaining eight dealerships will then also deviate from the collaborative price and the first scenario would be once again naturally implemented. Knowing that exists a strong incentive to a dealership to deviate with the second scenario, communication between dealerships and BMW Motorrad Portugal must be as effective as possible, and the consciousness that the expected net present value of a collaborative strategy in the long-run will always be greater than the reality of the first scenario, must always be present.