

# **Competitive advantage at BMW: An analysis**

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## Competitive Advantage at BMW: An Analysis

Kurtis Morrison  
Fall 2010

### ABSTRACT

BMW is one of the world's most successful auto-manufacturers, and is one of Germany's most important companies. Success or lack of success at BMW dramatically affects the automotive industry, specifically the premium segment, and would also affect the German economy's current account. I reviewed several dozen sources, and conducted personal interviews with those knowledgeable on the topic. As a result, the paper is able to provide an understanding of competitive advantage at BMW. It proposes four advantages that BMW holds which allow the company to compete, and identifies four critical sources of these advantages. It then considers the sustainability of these sources and is able to identify two sources as key strategic sources of sustainable competitive advantage: the ability to create an emotional connection with consumers, and the organizational behaviour characteristics (informal employee networks, cross-functional teams, and organizational culture) that facilitate innovation at BMW.

### INTRODUCTION

Iconic German auto-maker Bayerische Motoren Werke AG, known worldwide as BMW, is a global force in the market it refers to as "individual mobility". Over the past five fiscal years, the company has amassed revenues of more than €250 billion – roughly \$350 billion USD. As one of the world's biggest players in its market, BMW's strategies, successes, and failures heavily impact the luxury car market, the automotive industry, and the German economy. Like many successful companies, BMW appears to have multiple sources of competitive advantage that have contributed and are expected to continue contributing to the company's success.

Some other successful carmakers have some particular source of competitive advantage that seems to be the crown jewel of the company. For example, the pull-model of production at Toyota that made its production processes far more efficient than its competitors, vaulted Toyota to the status of largest carmaker in the world, and the darling of business school case-studies internationally. Hyundai and Kia follow a cost-minimization strategy that allows them to keep prices lower than those offered by competitors.

BMW, which mainly competes with other *luxury* producers like Audi and Mercedes, does not have such an obvious source of advantage. This paper will examine and analyse some of the sources of competitive advantage that BMW has. It will argue that BMW possesses sources of competitive advantage related to: marketing, quality level, innovation, and production processes. The paper will argue that the sources of these advantages are engineering, organizational behaviour characteristics, the company's ability to create an emotional connection with its customer, and its attempt to become a mass customizer. The impact and more importantly, the sustainability of these advantages vary. As such, the overall purpose of this paper is to determine which sources of competitive advantage BMW should base its strategy

upon moving forward. These critical sources of advantage will be an emotional connection with the customer, and organizational behaviour characteristics.

## 1. COMPANY PROFILE

While it is expected that the reader is familiar with BMW, I felt that a brief profile of the company's operations is appropriate. BMW, founded in 1917, is the largest luxury car manufacturer in the world. The BMW group, in addition to the BMW brand itself, also produces the Rolls Royce and MINI brands, and a line of motorcycles. The company is able to generate high returns focusing on the premium segment of the automobile market, and the brand is associated with "high performance, engineering excellence and innovation" ("BMW Company Profile", n.d.). BMW's most known vehicles are luxury sedans and coupes, such as the 3, 5, 6, and 7 series.

However, with car enthusiasts, it is most well known for its "M" models. Cars bearing the "M" badge are high performance versions of existing series. The company has also been successful with the Z series of convertibles, made famous by its role as James Bond's car in the film *The World is Not Enough*. In 2008, BMW released its 1 Series in the United States ("BMW 1 Series Pre-Launch Consumer Survey Results Released by Pasch Consulting Group", 2008), a slightly more affordable version of the 3 Series. BMW's production facilities are located in Germany, although it has one American plant in Spartanburg, South Carolina. This factory, which was the fastest factory start-up in automotive history (23 months from groundbreaking to first automobile built), produces the X series for worldwide distribution ("Production Overview", 2010).

## 2. THE CONCEPT OF COMPETITIVE ADVANTAGE

Before continuing with this analysis, it is necessary to clarify the definition of competitive advantage I used in this analysis. This is because there are several varying definitions of the terms "competitive advantage" and "sustainable competitive advantage". For the purpose of this paper, I have chosen to define the term competitive advantage as "any factor that allows a firm to make profits greater than other firms in its industry; the reason for a customer to choose the product of one company over another".

Sustainable competitive advantage, when referenced in this paper, refers to a competitive advantage that can persist indefinitely in the absence of major systematic changes to the industry. The phrase "without major systematic changes to the industry" refers to the fact that no competitive advantage is absolutely sustainable in all contingencies. For example, the government could easily legislate away any kind of competitive advantage if it chose to do so.

As an example of competitive advantage based on these definitions, a firm that persistently achieves high profits might do so because they have a better marketing department than competitors. In this case, marketing would be the competitive advantage. It is a sustainable competitive advantage if there is no particular reason to expect that the advantage will be eliminated in the foreseeable future. The *source* of the competitive advantage is whatever factor causes the company's marketing department to be better than that of other firms in the industry.

### 2.1. DEFINING THE MARKET AND THE COMPETITION

Before this paper discusses possible reasons how BMW has a competitive advantage, it must define who the competition is. The "big three" competitors in the luxury car market are the German companies BMW, Audi (a Volkswagen brand), and Mercedes. Within Europe, these three producers compete

primarily against each other. Reiter (2010) provides the most recent market information -- October, 2010 monthly sales data -- which puts Audi's European sales at 52,181 units (up 2.2% from last 2009), BMW's as 51,863 units (up 6.2%), and Mercedes' at 50,855 units (down 2.5%) (Reiter, 2010). BMW is still the largest worldwide luxury car producer, however. Outside of Germany, BMW also competes fiercely with Lexus, Toyota Motor Company's premium brand.

In the US, Lexus and Mercedes' sales have been higher than BMW's through the first nine months of 2010, which saw BMW's sales grow at nearly 10% while Mercedes and Audi's US sales grew at rates higher than 20% ("BMW setting up for US luxury car market recovery," 2010). The big-three German automakers are also competing in developing markets. In fact, Matthias Wissmann, President of the German Car Industry Association, said in July 2010 that "[t]he drivers of growth are above all Asian markets" (as cited in "German luxury car sales to China boom", 2010).

## 2.2 COMPETITIVE ADVANTAGE THEORIES

### 2.2.1 Product Quality

As a premium product that clearly follows a differentiation-based competitive strategy, it would make sense if the company's competitive advantage was in quality. Internationally, BMW is praised for its engineering. However, in 2010, JD Power ranked BMW *below* Lexus and Mercedes in initial overall quality, and on-par with Audi. These rankings are determined by:

*"owner-reported problems in the first 90 days of new-vehicle ownership, this score is based on problems that have caused a complete breakdown or malfunction, or where controls or features may work as designed, but are difficult to use or understand (Quality Rankings by Brand, 2010)."*

However, JD Power has an entirely separate category called "Performance and Design". I prefer to define quality as "the ability of a product to meet the needs, wants, and expectations of the customer". Using this definition, performance and design should be considered when discussing quality. In this category, BMW, Audi, Lexus, and Mercedes were all given a score of 4/5, which means "better than most" ("Performance and Design by Brand," 2010). The JD Power method of ranking has been criticized, however. For example, Strategic Vision (2010), a firm that conducts its own auto rankings, communicated in a press release that "Simply counting how many problems a vehicle has or design characteristics that buyers do not find 'completely satisfying' or 'excellent,' is inadequate when determining why people spend tens of thousands of dollars on a new vehicle".

Regardless, even in Strategic Vision's 2010 rankings, BMW was not recognized as excelling in overall quality. This suggests that overall quality is not necessarily an advantage for BMW versus other luxury carmakers, but that a quality advantage at BMW must be in a specific area of quality. This paper will attempt to show that BMW is said to have a quality advantage in two specific areas: engines and technology. The company is a perennial contender in the International Engine of the Year awards, winning in four categories in 2010 ("International Engine of the Year Awards," 2010), and its new 7 Series was named the World's Most Technologically Advanced New Car of 2009 by iSuppli (as cited in "BMW 7 Series tops iSuppli's automotive technology scorecard," 2010). This was the fourth consecutive year in which BMW won this recognition.

Thus, BMW does have a quality advantage in some areas, both driven primarily by the talent of its engineering team. Please note that in the high-end automotive sector, which has had to adapt to the rapidly changing pace of computer technologies, quality and innovation seem to go hand-in-hand., and at times the line between the two is blurred.

### 2.2.1.2 Engineering

Burkhard Goschel, at the time a member of BMW's board of directors, stated in a 2004 interview that the "BMW Group knows what are its strengths. In concrete terms, this means that we know what we do best: we are best at the 'Premium' level" (as cited in "BMW on Innovation," 2005, p. 1). Goschel goes on to say that this understanding of its strengths has helped BMW become a market leader, with a focus on uncompromised engineering and new technology. As a company that seeks to sell cars based on differentiation, profits at BMW depend on high quality engineering. While design processes and organizational behaviour characteristics facilitate innovative, high quality engineering, Goschel points out that "processes are no replacement for ideas, since the process does not think of anything for itself", (p. 3) and believes that the fundamental source of BMW's innovative, high quality engineering stems from four characteristics of the people within the company: "courage, creativity, freedom and enthusiasm for new things" (p. 3). These qualities have led BMW to winning 25 Engine of the Year Award Categories in the past 5 years (see Table 1).

**Table 1: International Engine of the Year Awards 2006-2010**

Automaker	Category wins at International Engine of the Year Awards
BMW	25
Mercedes	5
Audi	2
Lexus	0 (although parent company Toyota has won several)

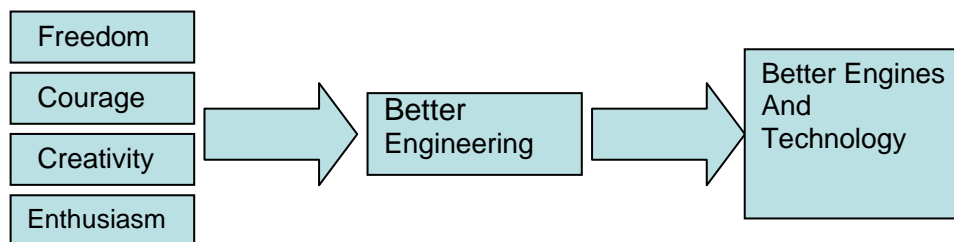
Source: "International Engine of the Year Awards" and "Previous Winners," 2010

What makes BMW's engine special? Speaking on the company's 3.0 litre twin-turbo engine which won Engine of the Year in the "2.5-3.0 litre" category for 2010, Jason Cammisa of Automobile Magazine said that "[w]ith refinement that no V6 engine can match, BMW's holdout in-line six is still the gold standard for power delivery and response – not to mention efficiency" (as cited in Horatiu, 2010). Judges at the International Engine of the Year Awards consider factors like "fuel economy, smoothness, performance, noise and drivability" ("International Engine of the Year Awards," 2010). Joseph (2010) claims that it is the fuel injector, ignition coil, thermostat, and oxygen sensor in a BMW that provide the truly superior efficiency of a BMW engine.

To gain more insight on the difference between BMW engines and those of their competitors, I interviewed Daniel St. Denis, a sales representative at Victoria BMW in Victoria, British Columbia. He says that the biggest engine difference is that BMW typically "uses an inline 6-cylinder engine, as opposed to a V-shape", which is the cylinder formation used by rivals. These engines allow for smoother, more responsive engine that wears easier and smoother (St. Denis, 2010). "BMW invests a huge amount of money, time, and research into these engines so that they can use the same one across the product line" (St. Denis, 2010), which means that more time can be spent on fine-tuning and trouble-shooting each engine. St. Denis (2010) also mentions that BMW is a leader in engine-turbo technology, allowing for increased efficiency. Asked if he thinks these factors affect the purchase decision on the sales-room floor, St. Denis (2010) said "Yes, depending on how you [communicate] them to the customer", as sales professionals can relate these characteristics to key purchasing criteria. For example, St. Denis (2010)

says that the fact he can tell a customer that a particular engine “is in five different [BMW] models” is a testament to the reliability of the engine. In this way, excellent engineering by BMW’s talented team drives sales at BMW.

**Figure 1: The Source of BMW’s Engine & Engine Technology Advantage- Better Engineering<sup>1</sup>**



### 2.2.2 Innovation Process

One of the most common words describing BMW is “innovative”. In 2004, BMW was named Germany’s most innovative company (“BMW on Innovation,” 2005, p. 1) - impressive considering its rivals included Audi and Mercedes., and a supplier study in the US named BMW the most innovative automaker in America (Lago, 2009). In this study BMW far outperformed Mercedes, and Toyota (which is responsible for the Lexus brand). According to Merriam -Webster’s dictionary (n.d.), to innovate is to “make changes: do something in a new way”.

Although the quality of the engineering team at BMW helps create an advantage in engine and technology quality, we cannot overlook the fact that the innovation process, and the context for the innovation provided by top management, contributes to the product as much as the engineers do. BMW’s innovation advantage also lies with the environment created by managers for people at BMW to do their work. A set of organizational characteristics are the source of BMW’s competitive advantage in innovation processes.

#### 2.2.2.1 Organizational Behaviour Characteristics: Informal Employee Networks and Cross Functional Teams

In 2006, BusinessWeek published a fascinating article by Gail Edmondson entitled “The Secret of BMW’s Success” which argued that innovation is the ticket to success in the auto industry, and that BMW has succeeded as an innovator because of organizational behaviour characteristics. The article argued that the company’s success is driven by informal employee networks and cross-functional teams. BMW encourages employees to engage in these informal networks across functional areas of the organization, and form self-directed teams.

Impressive levels of communication and innovation have resulted. James Manyika, who was a partner at McKinsey & Co. at the time, said that “cross-functional teams look messy and inefficient, but they are more effective at problem solving,” (as cited in Edmondson, 2006) which in his opinion is why companies like BMW are “widely ahead of their competitors”. This is a philosophy shared by management at the company. BMW executive Richard Gaul suggested that “discipline and creativity are not a paradox, there is a borderline case of self-controlling systems” (as cited in Edmondson, 2006). Edmondson (2006) argued that this ability to strike balance between discipline, traditionally associated with hierarchy and rigidity, and creativity, which is traditionally associated with chaos, would be the automotive industry’s

<sup>1</sup> “Freedom, Courage, Creativity, and Enthusiasm” suggested by Goschel ” (as cited in “BMW on Innovation,” 2005, p. 3)

next “kaizen”, Toyota’s continuous improvement philosophy which revolutionized automotive manufacturing. In agreement, Harvard Professor Karen Stephenson added that “a network is the only way to effectively manage BMW’s kind of complexity” (as cited in Edmondson, 2006). This is one area where it is clear that there *is* in fact a competitive advantage.

Indeed, if these organizational characteristics are the engines of innovation at BMW, then they create a massive competitive advantage. Edmondson (2006) compared BMW to less profitable companies in the industry such as Ford or General Motors (GM), noting that a critical difference is that the two Detroit-base automakers are criticized for a lack of innovation. Edmondson (2006) writes that GM in particular has been criticized for its rigid and hierarchical structure, which has stifled innovation and therefore left the company at a competitive disadvantage.

For further insight, I interviewed David Laubner, a graduate student at the HHL Leipzig Graduate School of Management, who has worked in benchmarking and competitive intelligence at Audi Consulting. Laubner (2010) agrees that BMW uses more cross-functional teams than its rivals, saying that “Project I is a great example of BMW’s use of cross-functional teams. They take people from all functions in separate departments and put them together to work on anything they want related to electromobility”. Laubner (2010) believes that having multiple departments working together ensures the best overall product, although he cautions about overestimating the difference between the premium carmakers: “there is so much benchmarking going on that it makes the premium brand cars such as BMW and Audi very similar”. Laubner (2010) describes the organizational culture at BMW as being much like a “family business”, that is very “passionate about being there for employees”. As a result, “someone who has made it to BMW will stay there very long” (Laubner, 2010), suggesting that this family-like culture helps the company retain top talent, which contributes to both innovation and quality.

Indeed, it appears that organizational behaviour characteristics such as informal networks, cross-functional teams, and organizational culture have created a competitive advantage for BMW.

## 2.3 MARKETING

For any product, physical characteristics alone are not enough to drive sales – the entire marketing process is crucial, from positioning strategy, to product design through to promotion. All of these factors affect the value of the brand. Interbrand, a consulting company focusing on brand management, ranked BMW as the 15<sup>th</sup> most valuable brand in the world. Mercedes, however, was 12<sup>th</sup> (“Best Global Brands Ranking for 2010,” 2010). The same rankings placed Audi placed 63<sup>rd</sup> overall, while Lexus did not make the top 100. One marketing aspect BMW does seem to do better than its competitors, however, is evoking an emotional response from people, and creating an emotional connection with consumers.

### 2.3.1 Emotional Connection with the Customer

BMW clearly thinks that having an emotional connection with customers is key to their success moving forward. The latest BMW branding activities are related to the “Joy is BMW” campaign, which seems to be aimed at evoking an emotional response from consumers. The people at BMW have a way of provoking passion and excitement in a way few others can. Helmut Panke, former Chairman of BMW, said that “[t]he BMW brands stand for a promise of *fascinating* individual automobiles – a promise we do and will keep” (as cited in Franzen, 2010, p. 1). Instead of focusing on how fast the car can go, how safe it is, or how luxurious it is, BMW ads are now focused on how it will make you *feel*. An excellent example of BMW’s appeal to the emotions of the consumer is found on the company’s website:

*Joy. From this word a company has been built that is totally independent and committed to just one thing—the driver. We don't just build cars, we create emotions. We are guarantors of enthusiasm, fascination and goose-bumps. We compose new forms of Joy for which there are no words to describe. We are sheer driving pleasure ("Joy is BMW," 2010).*

Jack Pitney, VP of Marketing for BMW, spoke on this strategy, saying that BMW wants to focus on the end-result of a BMW purchase: "it's the way the cars make you feel. Really, the "Ultimate Driving Machine" is about bringing the joy of driving to life" (as cited in Greenberg, 2010). Pitney continued that the focus on emotion, a clear difference from the strategy of Mercedes, Audi, and Lexus, is based on research showing that in a tough economic climate, like the one faced currently, "brands that do the best are those that are authentic, purpose-driven brands that have defined themselves over decades as being true to their core purpose". This led the marketing team at BMW to conclude that "if ever there has been a time to remind people what the BMW is about, now would be the time" (as cited in Greenberg, 2010). While the "Joy" campaign is new, BMW's ability to connect emotionally with consumers is not.

In 1999, an article by Hazlett and Hazlett (1999) was published in the Journal of Advertising Research that discussed the results of a study where the emotional reaction of consumers when they watched a particular commercial. BMW, Nissan, and Ford Mustang advertisements were shown, and BMW appeared to elicit the greatest emotional response from males that watched the commercial, as measured by facial Electromyography (EMG) and self-report from the viewer. Facial EMG is a "precise and sensitive method to measure changes in facial expressions" ("Emotional Activation and Facial EMG Measurement", n.d.), and is commonly used in scientific research to measure emotional expressions in advertising research ("Commercial Applications," n.d.). Later, it was shown that men who watched the automobile commercials had the highest recall of the BMW ad (Hazlett & Hazlett, 1999). Hazlett and Hazlett (1999) also point out that previous researchers have concluded that "consumer's emotional response toward the brand and/ or the ad can be a powerful motivator of consumption behaviour".

An example of how BMW uses its superior ability to create emotional connections with the consumer is its leadership in the field of green technologies. According to emotionalbranding.com -- a self-described "experimental think tank" for consumers and marketers alike -- "the single most important emotion in marketing right now is specifically related to people's passion to do something positive for their planet" ("Green Emotions," n.d.). BMW appears to be aware of this and has been on top of this trend for several years now -- in fact, in 2007 the company was criticized by some for spending *too much* money on green technology investments, after having increased Research and Development spending by 14% to \$645 million in the 2<sup>nd</sup> quarter of 2007 (Edmondson, 2007). While short-term profit margins may have been hurt, BMW is poised to reap the rewards of being associated by the customer with environmental friendliness after winning several awards such as 2008's World Green Car of the Year ("BMW 118d wins World Green Car of the Year," 2008), and maintaining its position on the DOW Jones Sustainability Index as the World's Most Sustainable Car Maker (Tay, 2010).

This emotional connection with the consumer is not just important in the promotion stage of the marketing process. It begins with the design, and continues to the experience customers have when driving a BMW for the first time. St. Denis (2010), the sales representative at Victoria BMW, says that the "joy of driving" motto is more than just an advertising method: "BMW is all about the joy of driving...from the engine, to the interior, and the suspension...everything is designed with a focus on the driving experience". He compares BMW to Mercedes, saying that Mercedes strives to build a car that is "pleasant, easy to drive, and has a beautiful interior", while BMW focuses on "how much fun the driver is having", noting that the interior of a BMW is comparatively "spartan".

While a slick communication strategy might get the customer inside the dealership door, the consistency of the philosophy from factory floor to the consumers' garage seems to be what really creates the emotional connection, because in St. Denis' opinion, the bulk of the emotional connection occurs when the customer drives a BMW for the first time. He says that most customers, once they've had a BMW, do not want to drive anything else, noting that he's "had some customers that have owned five or six BMWs in their life". Clearly, then BMW does have a marketing advantage based on its ability to create an emotional connection with consumers that is created by its consistent focus on the driving experience, and in the communication of that experience.

## 2.4 PRODUCTION PROCESSES

Toyota has garnered extreme praise for its Toyota Production System (TPS), the pre-cursor to the modern Integrated Production Management framework. The process by which cars are produced is critical both for keeping costs low and ensuring quality consistency.

BMW competes fiercely with similar German automakers like Audi and Mercedes. These rivals could also claim that their models are high quality, innovative, and expertly marketed. The real difference maker then could be in the production process – just like Toyota in the economy car market space. Indeed, BMW has a large project in the works, which may revolutionize the production process –and the way cars are made and sold in general: Mass Customization.

### 2.4.1 Mass Customization

James O'Donnell, BMW US's most senior executive, has set a goal of producing 40% of BMW's to exact specifications of customer orders by 2015 – bringing mass customization to the auto industry the way Dell brought it to the computer market (as cited in Muller, 2010). Although the execution of mass customization is difficult, its concept is quite simple. If production occurs only after an order is received, there is less-work-in process inventory at a given point in time and the time it takes to produce a given unit is shorter because it does not wait in an inventory build up at process bottlenecks.

The result is lower costs and higher profit margins. Muller (2010) says that O'Donnell is convinced that the new customization program will be a source of competitive advantage versus Audi and Mercedes in the future by taking "slack out of the production process, reduce inventory carrying costs for dealers and avoid hefty rebates on cars that aren't selling." (p. 1). Muller (2010) writes that the company is unrolling a customization push that promises customers who custom-order their BMW will receive their brand new car after two to six weeks. Compared to its US competitors, BMW has a much better chance of making a success of mass customization. Muller (2010) also points out that:

*BMW's factory is already equipped to handle complex car production. It exports 70% of the vehicles it makes to more than 130 countries, each with its own regulatory requirements and consumer tastes. Also, instead of grouping features in a handful of popular packages like most carmakers, BMW sells many options à la carte. Thus, the plant could run two shifts seven days a week for six months and never build the same vehicle twice. (p. 2)*

Muller (2010) also points out that one of the simplest and most profitable points of the mass customization push is that BMW allows customers to change their order up to six days before their car is scheduled for production and as a result, BMW customers each year change their order a million times. While this is convenient for customers, the important point for BMW is that these changes are usually additions of high-margin options that add revenue for the company (Muller, 2010). Peter Schmidt, a British auto-industry consultant, likens this additional revenue to "a big dollop of cream on the cake" (as

cited in Muller, 2010, p. 2). This customization is made possible by flexible labour agreements at plants such as the one in Leipzig, Germany (Muller, 2010). BMW's labour contracts allow it to operate in such a way that plant operation is dictated by demand. The Leipzig plant, for example, can run between 60-140 hours per week (Muller, 2010).

This customization strategy makes production more complex, and is certainly not the most efficient method. Muller (2010) also writes that metrics such as the number of cars produced per day per worker, for example, are lower. Garel Rhys, an auto-industry expert at Cardiff University, says that the revenue gains from customization outweigh the costs of a less efficient production line (as cited in Muller, 2010).

### **3. BMW AND THE CONCEPT OF SUSTAINABLE COMPETITIVE ADVANTAGE**

For a competitive advantage to be sustainable, it must be difficult for competitors to copy. The sources of competitive advantage argued in this paper achieve varying degrees of sustainability. They will now be analyzed in this context.

#### **3.1 SUSTAINABILITY OF ENGINEERING AS A COMPETITIVE ADVANTAGE SOURCE**

While BMW's consistent domination in the field of Engine design, it is hard to argue that this could not be copied by Audi or Mercedes. All of the German companies are known worldwide for their engineering abilities, and if they desired to compete with BMW in this arena, they probably have the resources to do so. The reason they do not already match BMW's reputation in engine building is that it would not provide the best return on investment given the positioning strategy of the companies. For example, Mercedes, which focuses on the luxury aspect of the product, probably would not gain much in sales by improving the engines because its target customer cares less about such features than a BMW customer. However, were Mercedes or Audi to undertake a long-term brand positioning change, this competitive advantage created by superior engine design would likely be weakened or even overtaken.

#### **3.2 SUSTAINABILITY OF ORGANIZATIONAL BEHAVIOUR CHARACTERISTICS AS A COMPETITIVE ADVANTAGE SOURCE**

Organizational Behaviour characteristics at BMW such as informal networks and cross-functional teams might be difficult to copy exactly, but other Premium car companies can and do also use similar methods for innovation. While competitors might be able to copy the processes at BMW, they cannot completely capture the cultural input into these processes. The unique mix of organizational behaviour characteristics at BMW would be exceedingly difficult to mimic, and thus this advantage is comparatively very sustainable.

#### **3.3 SUSTAINABILITY OF AN EMOTIONAL CONNECTION WITH CONSUMERS AS A COMPETITIVE ADVANTAGE SOURCE**

This particular source of competitive advantage is an important one. As mentioned by St. Denis (2010), BMW buyers are commonly repeat buyers. This ability to turn a person into a "BMW person" is based on a philosophy that is as old as the company itself, and stems from the core values of the company. As core values cannot truly be imitated, it is difficult to imagine Audi, Lexus or Mercedes take this advantage away from BMW.

### 3.4 SUSTAINABILITY OF MASS CUSTOMIZATION AS A COMPETITIVE ADVANTAGE SOURCE

Because Audi, Mercedes, BMW, and Lexus all follow a differentiation strategy and compete in the luxury car market, BMW's competitors should be able to make the transition towards customization in international markets. Laubner (2010) says that in fact, BMW, Audi, and Mercedes produce *most* of their cars to custom orders within Germany, saying that "88 or 89 percent of new cars are built to custom order – if you want to be a premium brand, you have to offer customization". He suggests that one reason BMW might be making the biggest push towards customization in North America is that it has a plant in Spartanburg, South Carolina – making wait times for customers shorter if the cars had to be shipped from Germany.

In fact, the BMW Manufacturing Company's webpage boasts that 80% of cars produced at Spartanburg are produced to a custom order ("Production Overview," 2010). Laubner (2010) points out, however, that Mercedes also has a plant in the US. Thus, while BMW appears to be making the biggest push towards customization in the US, and as the company has achieved positive results already, the company's competitors have much of the know-how to do the same and likely will in the future having seen positive results at BMW. While being the "first to market" in a sense is certainly an advantage in the medium term and will create wealth for shareholders, this strategy should not be seen by BMW as a core competitive advantage source in the long term.

## 4. BMW'S COMPETITIVE STRATEGY MOVING FORWARD

Based on the different degrees of sustainability of the competitive advantage sources examined in this paper, BMW's long term competitive strategy should focus on two key points: the emotional connection with the customer, and organizational behaviour characteristics mentioned above: cross functional teams and informal employee networks.

### 4.1 STRATEGY REGARDING EMOTIONAL CONNECTION WITH THE CUSTOMER

The emotional link with the consumer is the most important part of BMW's future marketing success because it puts people in a BMW for the first time, and most importantly keeps them there for many years. The key to success is to further ingrain the "Joy is BMW" philosophy, where the focus is on the driving experience, in all of the company's marketing processes (from product design to communication). While the company already has implicitly held this "joy of driving" value for many years, it could be taken even further. Every aspect of BMW's business should focus on the emotions of the driver when they see, hear, and test-drive the car. Also critical to the emotional connection between the company and the car-owner will be BMW's customer relationship management initiatives. While there are of course unlimited possibilities for succeeding according to this strategy, it may seem vague without an example.

One way BMW can get a further emotional reaction from the consumer is by launching a "my first drive" campaign, featuring real customers' stories about their first experience in a BMW, focusing on the emotions they felt at the time, along with the appropriate footage and sound of a BMW in all its glory. The ad could explicitly encourage the viewer to test drive a BMW. The ad, focusing on human emotion, would likely appeal to the emotions of the viewer and thus begin this emotional connection to BMW. The focus on the "first drive" coupled with explicit encouragement to try a test drive could increase the number of viewers (especially having created an emotional connection with them) to visit a BMW dealership and test-drive a car. This first-driving experience is what really evokes emotion from the consumer and causes them to buy – repeatedly. The campaign would also strengthen the bond current

BMW owners have with the company as they get to submit their stories and share their experience with the company and potentially the world.

#### 4.2 STRATEGY REGARDING ORGANIZATIONAL BEHAVIOUR CHARACTERISTICS

While the emotional connection to the customer gives BMW identity, innovation is what allows the company to continually improve the driving experience – so the two are interlinked and to an extent interdependent. Key organizational behaviour characteristics at BMW -- informal employee networks and cross-functional teams -- are what drive innovation at the company. One reason innovation is so important in terms of competitive advantage, is that it has the potential to uncover new sources of advantage. For example, a cross-functional team at BMW, using knowledge disseminated through informal employee networks, might develop an innovation that leads to new patents and access to new markets. Because customization and engine quality may not be truly sustainable sources of advantage at BMW, staying competitive means replacing them with new advantages, and this is done through innovation.

#### CONCLUSION

This paper has focused on four current sources of competitive advantage at BMW. They are: engineering quality with regards to engines and technology; organizational behaviour characteristics such as informal employee networks, cross-functional teams, and organizational culture; the company's ability to create an emotional connection with the consumer; and mass customization. These sources give BMW competitive advantages in the areas of quality level, innovation, marketing, and production processes. Of these competitive advantage sources, the emotional connection with the consumer and organizational behaviour characteristics were identified as the most sustainable sources of advantage, and thus it was suggested that these two sources be the focus of BMW's competitive strategy moving forward. Examples were given for how these sources could be even better utilized, including a "my first drive" campaign to push consumers to experience the joy of a BMW for the first time while concurrently strengthening the emotional bond with current BMW owners that submit their stories.

While this paper synthesized, analyzed and furthered the available information about the source of BMW's competitiveness, future research could look at the strength of the emotional connection between the customer and BMW; the individual impact of several organizational behavior characteristics, and possibly BMW's sustainability strategy and its impact on competitive advantage.

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