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BMW's Project Switch (B): Importers vs. National Sales Companies

Stavros Yallouridis, president and managing director of BMW Group Hellas in Greece, was determined to make dramatic and high impact changes at the newly-established National Sales Company (NSC). After two months in a small room in the importer's offices, he made several bold moves: he reviewed all existing personnel's resumes; he set out to identify a new location for BMW Hellas' office—one with an address befitting the BMW brand; and he decided to hold a management conference for all his dealers, scheduled for September 25, 2003. "The dealers had been together once or twice before but not at this magnitude," said Yallouridis. "We wanted to set high expectations for them and let them know they needed to be managers of a very high caliber." He arranged to hold the conference at an exclusive hotel on the oceanfront, the minister of transportation was invited together with several high-profile athletes and local celebrities to join the reception. While the conference—meant to celebrate the dealers—was upbeat and of high quality, in his address Yallouridis took a decidedly urgent tone:

You are the chosen ones, but not because of me. I inherited you. So, we'll work together for five years because you have a five year contract, but I can guarantee you that you will do things the BMW way. You have to invest in BMW. I have a list of entrepreneurs as long as my arm—investors who want to become dealers.

Project Switch had already identified and appointed three experienced managers from BMW headquarters to work with Yallouridis to ensure that BMW Hellas had the best chance of a fast and successful start with effective support from Munich. Carsten Haverich, an experienced sales manager who had already been a key player in the NSC start up in Russia in the late 1990's, was appointed to prepare the NSC's sales activities. He then became BMW Hellas' sales and marketing manager. Peter Buchenrieder, also from headquarters, was appointed to prepare and then implement SAP and key BMW business and reporting processes in the NSC. He also oversaw the structural development of the NSC and played a key role in making sure that all contractual commitments in the Importer Joint Termination Agreement were met after the business take-over. Karl Koppensteiner, a senior and very experienced BMW Finance and human resources executive, was considered a steady hand brought in to ensure that, from day one, the team built a strong foundation for the NSC's long term success.

Professor Das Narayandas and Assistant Director Kerry Herman and Senior Researcher Laura Winig, both of the Global Research Group, prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Within days of the conference, Yallouridis also hired two senior-level managers to oversee human resources and corporate communications and had leads on two additional senior managers, one for aftersales and one for dealer development. All four candidates had long and successful experience in the Greek car market and Yallouridis knew they could hit the ground running, shoring up the NSC's infrastructure and evaluating the workforce.

Changes in the Workforce

With the exception of top management, nearly all of the importer's original workforce were retained. Yet pressure was on from BMW headquarters to streamline the BMW Hellas organization; "We were significantly overstaffed," Yallouridis recalled. A few people left of their own accord, others were asked to leave, although by EU law Yallouridis could only lay off a limited number of people each month. There was some natural attrition as work load across the staff increased and Yallouridis made some dramatic changes to how the business was run. The close collaboration with headquarters in Germany (requiring English or German language skills, which many employees did not have), increased responsibilities, and more ambitious targets—both quantitative and qualitative—highlighted the fundamental change of philosophy that Yallouridis expected BMW Hellas workers to embrace. He also expected customer service—both internally and externally—to improve dramatically. These shifts were in stark contrast to the previous environment of cost minimization and profit maximization under the importer. In most cases, staff had not been well trained and Yallouridis soon sensed some insecurity develop among those who felt they could not cope with the new expectations, additional workload and responsibilities. "When they were working under the importer's control, there was only a limited level of developed middle and junior management skills," said Yallouridis, and many employees were not well prepared for the new challenges ahead at BMW Hellas.

From a 2003 headcount of 97, Yallouridis reduced to 72 by the end of 2007 (see **Exhibit 1** for 2003 to 2007 head counts). In his second month, he replaced 19 positions within dealer development, marketing and accounting as well as general administration, and created 12 new positions within human resources, direct sales and other functions where positions had not previously existed. "We were waiting to see who had capacity," said Yallouridis. "And who would fit to the new culture, one that demanded more of them." Other functions, like the warehousing and service teams, were outsourced. In the parts business, those that remained were considered the higher performers and as such, were given significant pay increases to make them competitive with local market levels. In some cases this was double their current pay, as Yallouridis increased minimum-wage earners to align with BMW's global pay policy. "That created a great environment," he said. "These guys are going to work hard for me and do the best they can. Of course the higher performers really deserved this salary recognition, but at the time, it was as if Christmas had come early."

Improving the Infrastructure

The company's infrastructure under the importer was a "disaster" according to Yallouridis, and he immediately began to replace the old and inefficient computers and telephones. "The first thing I did was buy everyone brand new flat screen computers, and laptops for those who needed to travel," he said. He introduced a new management and field representative company car policy—a move that helped to get his sales force out of the office and into the field, and got more BMWs on the roads throughout his dealer regions.

His most pressing concern, however, was BMW Hellas' headquarters building, located in an old warehouse in a run-down industrial area. Yallouridis had been told by BMW headquarters to sell the building but also not to lose too much money on the transaction—a significant challenge since the

market value was much less than BMW's expectations. In late 2004, Yallouridis made an offer to a local entrepreneur from an aristocratic family with deep social and political contacts. This entrepreneur was an ideal candidate to run one of the new emerging BMW dealerships; Yallouridis negotiated to have the entrepreneur purchase the building for a price acceptable to BMW headquarters, combining the purchase with the right to open a dealership. With the deal concluded, Yallouridis wasted no time in moving his headquarters downtown to a more appropriate neighborhood.

Yallouridis considered these investments necessary to support BMW's brand image. "Everything's to sell the company. If my employees are selling the company outside to their family and friends saying, 'I have a great office, great working conditions and the latest in office technology,' it sells the company. I strongly believe that the positive environment we have created has significantly contributed to why BMW Greece is considered one of the best companies to work for."

Dealer Relations

After the management conference, Yallouridis also made evaluating and motivating his dealers a top priority. With the "EU harmonized" dealer reward and bonus system approved by BMW headquarters, it was possible for Yallouridis to improve dealer terms in Greece compared to their prior terms under the previous importer. With these changes, the dealers benefited significantly with an 8% fixed base difference value and, in addition, they also received an extra 1.5% to invest in their dealerships (instead of 8%, they earned 9.5%).¹ "Before, they were only getting a couple hundred Euros, depending on the car, from the importer," he said. "I gave them the dealer's fixed base difference which is almost 8%, and which is now standard throughout the EU, so this represented a big increase for them." Dealers had the opportunity to earn as much as 15% (8% fixed + 7% variable).²

Dealers reacted positively to the changes. "In the past, we had little communication with the importer, little support, and virtually no marketing. We ordered cars once per year," one of BMW Hellas's larger dealers said. "Now, we have interactive communication and support for all the models we sell which has helped us sell even more. Before, the area managers never visited us. Now, they come to our premises and write down the problems we are having as if they are working for us." The dealer noted that competitive pressure had increased within the Greek auto market forcing them to lower their prices in order to counter declining margins, so these changes were a significant help.

By 2007, Yallouridis had elected not to renew ten dealers. "The whole perception of the BMW brand is that you're a high-flier," he said. "Dealers need to be networking, negotiating, wine-ing and dining people in the area, talking to local government officials. Dealers should be actively offering test drives, not just waiting to see who comes in because they saw an advertisement. With these ten we knew they weren't going to make it, either because of the size of their local market business potential or the fact that they weren't able to invest, or their dealership was located in an area that just wasn't working."

Results

By 2007, Project Switch was a success in Greece. The company grew profits from €13 million in 2004 to €22 million by the end of 2006; 2007 was a difficult year due to product life-cycle factors, however the financials still show a sustained success (see **Exhibit 2** for profit and loss, 2003 to 2007).

¹ The additional 1.5% ran for the first 14 months of operation, until the end of 2004.

² Dealers could earn the 7% variable bonus if they met certain qualitative and quantitative criteria which was structured as a bonus plan with the variable payment made at the end of the year.

As Yallouridis noted, "Very quickly, we doubled our volumes, doubled our profits—BMW AG was providing us with appropriate levels of budget, providing us with great advertisements, feeding us information. I felt as though there was no chance I would lose." BMW AG had given Yallouridis enough room to run BMW Hellas as he saw fit. "They're not so interested in the details as long as the business is developing well—that's what I'm here for. At the end of the day, yes it is of course about brand strength and professional business development, but it is also a numbers game. If Munich has confidence in us, they will focus primarily to ensure that we achieve the bottom line and we will take care of the rest!" BMW had 2.8% of the Greek car market by the end of 2007 but were striving to reach 3%. "We think we can easily achieve that," he said. "Even going up to 3.5% over the next few years, we would be very satisfied." (**Exhibit 3** provides market share and sales data, 2003 to 2007.)

Exhibit 1 Employee Headcount During Transition to BMW Hellas, 2003 and 2007

Department	2003 (1 Oct)		2007 (31 Dec)			
	2003		2007 ^a			
	2003	Outsourced	Retired	Voluntary Leave or Other	Fired	Retained from 2003
General Management	1	0	0	0	0	1
Sales and Marketing	15	0	0	4	6	5
Motorcycles	9	4	0	2	1	2
Finance and Administration	28	3	3	2	6	14
Parts	28	11	0	4	10	3
Technical	16	5	1	1	1	8
Corp. Communication	0	0	0	0	0	0
TOTALS	97	23	4	13	24	33
	100%	23.7%	4.1%	13.4%	24.7%	34.0%

Source: Company documents.

^aExcluding temporary and external manpower.

Exhibit 2 BMW Hellas Profit and Loss Statement, 2003 to 2007

	Year End 2004	Year End 2005	Year End 2006	Year End 2007
I. Operating Results				
Net Turnover (Sales)	€251,938,522.67	€215,791,405.72	€244,277,187.78	€320,009,853.00
Minus Cost of Sales	€205,471,389.09	€171,337,579.00	€195,412,633.63	€264,020,502.75
Gross Operating Profit	€ 46,467,133.58	€ 44,453,826.72	€ 48,864,554.15	€ 55,989,350.25
Plus Other operating income	€ 4,270,879.34	€ 4,052,368.72	€ 4,803,258.34	€ 4,152,395.31
Total	€ 50,738,012.92	€ 48,506,195.44	€ 53,667,812.49	€ 60,141,745.56
Minus				
3. Selling Expenses	€ 33,087,974.80	€ 28,627,955.09	€ 36,019,441.01	€ 37,930,151.19
Operating Profit	€ 17,650,038.12	€ 19,878,240.35	€ 17,648,371.48	€ 22,211,594.37
Less				
3. Interest and similar expenses	€ (452,080.65)	€ 68,013.27	€ 293,608.95	€ (377,704.16)
Total Operating Profits	€ 17,197,957.47	€ 19,946,253.62	€ 17,941,980.43	€ 21,833,890.21
II. Plus (minus) Non Operating Results				
Less				
3. Prior year losses	€ (3,759,966.71)	€ (4,137,766.81)	€ 4,212,410.64	€ 2,319,488.04
4. Provision for risks and charges	€ 13,437,990.76	€ 15,808,486.81	€ 22,154,391.07	€ (738,705.33)
NET RESULTS BEFORE TAXES	€ 13,437,990.76	€ 15,808,486.81	€ 22,154,391.07	€ 21,095,184.88

Source: Company documents.

Exhibit 3 Sales and Market Share, 2003 to 2007

	2003	2004	2005	2006	2007
Passenger Cars					
Total Greek Market Registrations	257,293	289,753	269,733	267,706	279,794
Change in %	-4%	13%	-7%	-1%	5%
BMW Plus Segment Registrations	24,192	29,273	29,880	30,955	34,328
In % of total market	9.4%	10.1%	11.1%	11.6%	12.3%
BMW Registrations	3,836	6,315	6,686	7,143	8,128
Market Share	1.5%	2.2%	2.5%	2.7%	2.9%
BMW Plus Segment Share	15.9%	21.6%	22.4%	23.1%	23.7%
Mini	532	785	1,092	1,057	1,718
Market Share	0.2%	0.3%	0.4%	0.4%	0.6%
BMW Group Registrations	4,368	7,100	7,778	8,200	9,846
Total Market Share	1.7%	2.5%	2.9%	3.1%	3.5%
Motorcycles					
BMW Registrations	805	1,088	1,261	1,310	1,528
Market Share	6.0%	5.9%	7.1%	7.4%	8.1%

Source: Company documents.