

CUSTOMIZATION AT BMW

Jason Chan wrote this case under the supervision of Professor Kyle B. Murray solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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“For us, the experience of driving a BMW has to be inspirational, special. The R&D is designed to take that ultimate driving experience one step further. There will never be a boring BMW.”

– Helmut Panke, chairman of BMW, 2002–2006

BACKGROUND

Jeremy Shaver, product planning manager for BMW Group Canada, sat at his desk in October 2006, wondering how to revive the once-promising BMW Individual program. Despite a strong start when the BMW Individual Collection (IC) program was launched in 2002 and significant growth in total BMW sales over the past three years, IC sales had declined substantially. At the corporate level, no specific measures had been taken to ensure a constant focus on the Individual program. At the customer level, BMW retailers were also putting in a lackadaisical effort, likely because they had no additional incentive to push a program that appealed to only a very select portion of their customer base. Shaver wondered how he could reinvigorate the BMW Individual program in Canada and give it the attention it deserved.

HISTORY OF BMW

BMW AG

Bayerische Motoren Werke, or Bavarian Motor Works, was founded in 1916 as a manufacturer of aircraft engines. Within its first years, BMW-powered aircrafts garnered 23 records for world speed, altitude and distance. In these early years, hands-on craftsmanship and a solemn commitment to detail became the hallmarks of BMW.

In 1923, BMW developed a revolutionary shaft-drive motorcycle, a concept so advanced that the technology is used even today. Five years later, BMW produced its first automobile, the 15-horsepower Dixi, a small but commanding model that went on to win races and road rallies all over Europe. However, it was not until the 1970s that the Munich-based automaker truly began to set its imprint as a leading premium carmaker. The introduction of BMW's two-door coupe, named "2002" (in reference to its model number, not its year of production), cemented the company's reputation for building sporty and compact sedans, and initiated a phase of remarkable growth for the company. By the mid 1990s, the company had developed, produced and sold more than a half million cars and 40,000 motorcycles around the world. In 1994, BMW purchased the British-owned Rover Group in an attempt to expand more rapidly and gain a presence in new and unique market segments. BMW again expanded its portfolio of brands in 1998, purchasing the rights to the Rolls-Royce name from Volkswagen, although BMW was not permitted to exercise brand rights until 2003.

In 2000, the pound sterling had appreciated significantly, making the restructuring of the Rover Group increasingly costly. BMW announced the sale of the Rover Group later that year, although the company retained the MINI brand, which entered series production in the spring of 2001.

In 2006, BMW exported to more than 100 countries. The company placed a strong emphasis on its Efficient Dynamics strategy, which focused on continually improving the performance of its vehicles while preserving the environment. This focus also led to BMW's Clean Energy concept — internal combustion engines fueled with liquid hydrogen, emitting zero emissions. BMW has since built the Hydrogen 7, the world's first luxury performance sedan with hydrogen drive. See Exhibit 1 for full details on BMW's model year 2005 product lineup.

BMW GROUP CANADA

BMW Canada Inc. was formed in January 1986, taking over the business activities of two importers, BMW Distributors Western Company in Vancouver, British Columbia and BMW Distributors Eastern Canada Ltd. in Whitby, Ontario.

In 1992, BMW's Canadian operations were divided into three regions corresponding to the main concentrations of population. The new alignment was designed to bring decisions closer to the market and improve responsiveness to retailers and customers. In addition to the Whitby-based headquarters, which served Ontario, BMW introduced regional offices in Montreal, Quebec, and Vancouver, British Columbia.

In 2000, to help accommodate record sales and ever increasing business volume, BMW Canada announced a \$6 million expansion of the Whitby headquarters and a \$70 million expansion and renovation of its major retail facilities. October 2003 saw the grand opening of Canada's most prominent retail facility, the corporate-owned six-storey 100,000 square foot BMW Toronto. Its location and architectural design reflected the premium image BMW was striving to build for the brand in Canada.

In 2005, BMW Group Canada sales amounted to 21,551 units, resulting in the 15th consecutive year of increasing sales — unmatched in the Canadian automotive industry. A total network of 39 BMW automobile retail centers, 18 BMW motorcycle retailers and 22 MINI retailers represented the BMW Group across the country.

THE NORTH AMERICAN AUTOMOTIVE INDUSTRY¹

The 1950s and 1960s were strong years for the automotive industry in America. As engine power increased and attractive designs emerged, automobiles became widespread. The “Big Three” automakers — Ford, General Motors and Chrysler — took control of the entire market, offering both luxurious and performance-oriented “muscle” cars.

Competition intensified in the 1970s, as many foreign manufacturers entered the market with superior engineering, better designs and lower prices. Additionally, stagnant innovation and automobile emissions controls resulted in the Big Three losing substantial market share to foreign competitors that introduced new technologies and smaller, more efficient vehicles. In an attempt to regain sales, domestic manufacturers heavily discounted their models; however this move soon took a large toll on profitability. Compounding the issue recently has been the rise in fuel prices. The popularity of sport utility vehicles, pickup trucks and minivans, which had previously been so profitable for domestic carmakers, began to subside due to the gas-guzzling nature of the vehicles. Unlike its foreign competitors, American manufacturers were tied to the United Auto Workers Union, which fought for and gained numerous additional pension and health care benefits, leading to heavy financial burdens for domestic carmakers and resulting in significant job cuts for both manufacturers and suppliers in the American automotive industry.

The Canadian automotive industry has long been tied directly to the United States, largely due to the Canada-U.S. Auto Pact signed in 1965. Under the agreement, U.S. manufacturers were required to assemble in the country. In 1999, the World Trade Organization struck down the Auto Pact, which was no longer valid after the introduction of the North American Free Trade Agreement (NAFTA) in 1994, an agreement eliminating the majority of tariffs between products traded among the United States, Canada and Mexico. Automotive manufacturing has been a key industry for the Canadian economy: more than one million jobs in Canada are in some way tied to the automotive industry. Automakers have played a major role in determining Canada’s trade balance, accounting for more than 25 per cent of the country’s exports.

MASS PRODUCTION AND MASS CUSTOMIZATION

“Any customer can have a car painted any color that he wants so long as it is black.”

– Henry Ford

Mass production has long driven the automotive industry. The concept of an automated assembly line was first used by Henry Ford to produce the Model T automobile. The efficiency of having one person perform the same task repetitively resulted in Ford’s vehicles coming off the line in three-minute intervals — seven times faster than any other previous assembly method. Because the new, innovative product had no real competition, consumers at the time did not demand a unique vehicle, accepting what was available in the market.

The picture has drastically changed in the 21st century. Globalization and the popularity of the Internet have facilitated a growing number of players competing in global industries. Consumer choice and selection have grown significantly, leading customers to demand more from manufacturers who attempt to match their exact wants and needs. Businesses have been forced to find ways to differentiate their products, leading them to offer more customized solutions in hopes of delivering a higher level of customer satisfaction and in turn generating more sales. The automotive sector has been no different. Japanese

¹ Source: *The Canadian Encyclopedia*, “Automotive Industry,” <http://thecanadianencyclopedia.com/index.cfm?PgNm=TCE&Params=A1ARTA0000412>, accessed January 25, 2008.

competitors have expanded their operations into both North America and Europe, using their lean manufacturing capabilities to offer more affordable vehicles with outstanding quality. In response, other automotive manufacturers have looked to differentiate their product offer as opposed to competing on price. Packages, exterior colors and equipment options were often more customizable on North American and European-made vehicles than on Japanese cars, which offered few, if any, customizable options. BMW took customization one step further by offering an exclusive program allowing consumers to tailor their BMW in almost any fashion imaginable.

THE BMW INDIVIDUAL PROGRAM

“Every BMW vehicle is a personal statement about mobility.”

– Manfred Braunl, national marketing manager for BMW Group Canada

In the early 1990s, a prominent fashion designer approached BMW, requesting to build a customized car. BMW was happy to oblige this unusual request. Word spread that BMW was willing to customize vehicles, and the company began receiving numerous inquiries. In 1991, BMW decided to establish BMW Individual as a division of BMW M GmbH, with the goal of strengthening the premium image of the brand. In the past, critics characterized the 3 Series, 5 Series and 7 Series vehicles as merely “sausages cut to different lengths.” BMW Individual was not only an answer to differentiating its product but it also targeted customers who demanded customization. From a bullet-proof 7 Series to an army-fatigued M5, the possibilities were endless (see Exhibit 2).

The BMW Individual program was launched in Canada in September 2002. To make BMW Individual accessible to retailers, the BMW Individual Collection (IC) was created. The IC combined exclusive paint, upholstery and trim options made from the finest materials in the world (see Exhibit 3). Customers could purchase an interior collection, an exterior collection or an individual collection combination, which combined both interior and exterior options (see Exhibit 4). Special factory requests were also possible if a customer wished to further customize a vehicle. In order to maintain exclusivity, BMW IC was only made available on the top-end model variants (see Exhibit 5).

The program launched with immediate success as evidenced by high consumer interest, strong retailer participation and profitability. The success was attributed to several key factors:

- The program was a first-time offer in the market
- Strong internal and retailer support at launch
- The hiring of a brand advocate at corporate level (BMW’s Product Planning Department)

In order to offer BMW IC at their dealership, retailers were required to sign an agreement to commit a minimum level of resources to support the program. For example, all individual retailers were required to have a dedicated area within the showroom to display indoor communication systems (ICS) and an individual-specified vehicle (see Exhibit 6). Due to the various commitments required in the contract, only 27 of 39 BMW Canada retailers were involved in the program.

As the excitement from launch slowly faded, BMW IC began experiencing declining volumes despite growth in total BMW sales (see Exhibit 7). Alec Karl, the designated brand advocate for BMW Individual, left BMW Canada in 2003, leaving only two product planners in the department to manage the increased workload. With the reduced headcount, BMW Individual was seen as a secondary priority due to its low

volume potential. Participating retailers also began to lose interest in the program, because they had no additional financial incentives to push BMW IC versus regular packages and options. They found it difficult to sell Individual packages compared to regular packages and options not only because they were more expensive, but also because Retailers felt they were not equipped with the necessary training to communicate the value proposition of the BMW Individual compositions to customers. Retailers were also failing to meet the commitments outlined in the signed retailer agreement: BMW Individual vehicles were rarely displayed in showrooms. However, no one at the corporate level was enforcing the terms of the retailer agreement. Because no one was encouraging retailers to put more effort into the program, retailers steered their efforts away from BMW IC, focusing primarily on their core business. The program was no longer serving as the exclusive, profitable and brand-building program BMW had hoped it would become for the Canadian market, and BMW Individual experienced significant financial losses.

BMW INDIVIDUAL — THE RELAUNCH

Shaver believed it was necessary to relaunch the BMW Individual program with a new strategic plan. He believed strongly in the program's brand-building benefits, the exclusivity it offered to customers and the differentiation it provided compared to its competitors. Because BMW Canada was growing rapidly, an additional product planner had recently been hired, and Shaver wondered what could be done to place a stronger emphasis on the initiative at the corporate level. He knew it was essential to build excitement around the program and to find a way to encourage retailers to refocus on selling BMW IC to their customers. What changes needed to be made to the program in order to give retailers the resources they required to promote BMW Individual? How could BMW Canada convince retailers that the program was worth their efforts? As Shaver pondered these questions, he realized it was going to be a long night ahead — his personal BMW M3 would have to stay off the track for now.

Exhibit 1**MODEL YEAR 2005 BMW PRODUCT OVERVIEW****3 Series**

BMW's entry-level model. It is a compact executive car and is viewed as BMW's most successful model. It has developed a reputation as a very sporty yet practical vehicle. It is available in sedan, coupe, cabriolet and touring body styles.

5 Series

BMW's mid-sized luxury sedan. Slightly larger and more spacious than the 3 Series, it is a perfect combination of sporting performance and elegance.

6 Series

Arguably BMW's most emotionally stimulating vehicle. Its grand-touring characteristics combine superb performance with sophistication and elegance. After a 15-year absence, the 6 Series returned in 2004 and comes available in coupe or cabriolet body styles.

7 Series

BMW's flagship executive sedan. Known for its exclusivity and luxurious nature, the 7 Series also debuts BMW's breakthrough technologies before they are used on any other model.

X3

BMW's second production sport activity vehicle (SAV). A smaller version of BMW's other SAV (the X5), the X3's ability to drive like a sedan has made it a very popular sporty alternative to station wagons while offering similar functionality.

X5

BMW's first production sport activity vehicle. The X5 is known for its superior performance capabilities and sedan-like feel rather than the off-roading nature typical of traditional sport utility vehicles.

Z4

Based on the Z3 rear-wheel drive sports car, the Z4 was introduced in 2002. It featured a design concept new to the automotive industry known as "flame-surfacing," giving the vehicle a dynamic look even at a standstill. It is available as a roadster or coupe (in Canada, only the roadster is available).

BMW M GmbH

BMW M is a subsidiary of BMW AG initially created to facilitate BMW's racing program. After experiencing great success in its racing initiatives, M now modifies versions of nearly every BMW production vehicle. Its objective is to produce cars that are practical enough for everyday use without compromising outstanding driving performance. M produces the M3, M5, M6 and Z4 M roadsters and coupes.

Exhibit 2

BMW INDIVIDUAL CUSTOMIZATION



I-drive controller with initials



BMW Individual fabric soft top color



BMW Individual stitching in headrest



BMW Individual logo on rear sunshade

Source: BMW Group Canada

Exhibit 3**THE BMW INDIVIDUAL COLLECTION****THE PAINTWORK**

The BMW Individual paint finish is more than just a color. It instantly catches the eye with its characteristic brilliance and unique changing effects. Depending on the light, the fine pigment coating creates ever-changing nuances in the paint finish, which in turn lend the surface a sense of depth.

The colors have been selected to guarantee a harmonious overall impression of exterior and interior colors. The BMW Individual paintwork, supplementary to the standard paintwork offer, perfectly matches the BMW Individual interior equipment.

The BMW Individual paintwork draws from a wide color spectrum to convey an appearance ranging from classical elegance to extravagance.

INDIVIDUAL UPHOLSTERY

Leather upholstery in BMW Individual Merino leather, a largely natural, thick leather with great texture, provides the vehicle interior with a natural, exclusive atmosphere. An especially gentle tanning process enhances the leather's natural characteristics, preserves its porousness and keeps its surface soft and smooth. The leather receives no additional surface treatment, neither coatings nor artificial stamping. High demands are placed on quality in the raw material stage, because only hides with a flawless surface (as few lesions or mosquito bites as possible) can be used for producing the BMW Individual Merino leather. The name "Merino," derived from the most exclusive type of wool, is meant to convey the high quality of the leather.

The BMW Individual Merino leather offers the best seat comfort. The soft, velvety surface has a pleasant feel, and when temperatures are high, perspiration is absorbed by the open-pored structure of the leather.

Innovative Sun Reflective Technology (SRT) is a special treatment applied to BMW Individual Merino leather. SRT is available exclusively for open-air vehicles, reducing the temperature of areas that are exposed to direct sunlight.

INDIVIDUAL INTERIOR TRIM

The materials and colors of the BMW Individual interior trims are matched to suit both the BMW Individual leather colors and the BMW Individual exterior paint finishes.

The BMW Individual fine woods, which differ greatly from the standard fine woods, offer superior quality in terms of grain and color and are treated in an environmentally friendly manner. To ensure the optimum grain characteristics, the woods are hand-sorted, restricting the availability of suitable woods and increasing the exclusiveness of BMW Individual fine woods. The BMW Individual interior trim in piano black is produced in a complex, highly developed technical process that makes use of piano lacquer technology.

Source: BMW Group Canada

Exhibit 4

SAMPLE BMW INDIVIDUAL COLLECTION COMBINATIONS

MODEL YEAR 2005 330I COUPE

Car Model

330Ci with 6-Speed Manual Transmission

BMW Individual Collection	Retail
INDIVIDUAL COLLECTION EXTERIOR	\$2,950
BMW Individual Collection Paint Finish	
BMW Individual High-Gloss Shadowline	
BMW Individual Door Entry Sill	
in combination with M Package	\$2,450
INDIVIDUAL COLLECTION INTERIOR	\$6,800
BMW Individual Collection Upholstery	
BMW Individual Collection Wood Trim	
Gear Shift Lever & Handbrake Gaiter Collection Leather	
BMW Individual High-Gloss Shadowline	
Anthracite Roofliner	
BMW Individual Door Entry Sill	
in combination with M Package	\$5,800
INDIVIDUAL COLLECTION COMBINATION	\$9,200
BMW Individual Collection Paint Finish	
BMW Individual Collection Upholstery	
BMW Individual Collection Wood Trim	
Gear Shift Lever & Handbrake Gaiter Collection Leather	
BMW Individual High-Gloss Shadowline	
Anthracite Roofliner	
BMW Individual Door Entry Sill	
in combination with M Package	\$8,200
Bi-Color Steering Wheel	\$290

Source: BMW Group Canada

Exhibit 5

MODEL YEAR 2005 BMW CANADA PRICING

Model Range	Model	Variation	MSRP ¹	BMW IC ² Availability
3 Series	320i	4dr Sedan	\$34,950	No
	325Ci	2dr Cabriolet	\$54,400	No
	325Ci	2dr Coupe	\$42,700	No
	325xi	4dr AWD Executive Edition	\$42,900	No
	325xiT	4dr AWD Touring	\$44,400	No
	325i	4dr RWD Executive Edition	\$39,900	No
	325iT	4dr Sport Wagon	\$41,400	Yes
	330Ci	2dr Convertible	\$64,400	Yes
	330Ci	2dr Coupe	\$49,950	Yes
	330xi	4dr AWD Sedan	\$50,300	Yes
	330i	4dr Sedan	\$47,400	Yes
	M3	2dr Convertible	\$83,950	Yes
	M3	2dr Coupe	\$73,950	Yes
5 Series	530i	4dr Sedan	\$66,500	Yes
	545i	4dr Sedan	\$77,700	Yes
6 Series	645Ci	2dr Convertible	\$109,000	Yes
	645Ci	2dr Coupe	\$99,000	Yes
7 Series	745i	4dr Sedan	\$97,500	Yes
	745Li	4dr Sedan	\$103,900	Yes
	760Li	4dr Sedan	\$169,000	Yes
X3	2.5i	4dr SAV	\$44,600	No
	3.0i	4dr SAV	\$49,900	No
X5	3.0i	4dr SAV	\$58,800	Yes
	4.4i	4dr SAV	\$71,700	Yes
	4.8is	4dr SAV	\$96,500	Yes
Z4	2.5i	2dr Roadster	\$51,900	Yes*
	3.0i	2dr Roadster	\$59,900	Yes*

*BMW IC was discontinued on Z4 variants for model year 2006.

¹ MSRP refers to the manufacturer's suggested retail price

² BMW IC refers to the BMW Individual Collection

Source: BMW Group Canada

Exhibit 6**BMW INDIVIDUAL COLLECTION RETAILER AGREEMENT**

The BMW Individual Collection Program is available to all retailers in good standing with BMW Group Canada and BMW Group Financial Services.

BMW GROUP CANADA HEREIN AGREES TO PROVIDE THE RETAILER WITH:

- ☐ The BMW Individual Collection Program product offerings, specifications, pricing and the vehicle ordering infrastructure for the program. The contents of the program are subject to change at the discretion of BMW Group Canada and BMW Group Financial Services.
- ☐ As of the date of this agreement, BMW Group Financial Services has agreed to provide retail lease residual support for all BMW Individual Collection Program packages. It is acknowledged that this policy is in affect with BMW Group Financial Services as of the date of this agreement and that any change to this policy will be communicated in advance to the Retailer by BMW Group Canada and/or BMW Group Financial Services.
- ☐ All participating Retailers will be provided with BMW Individual Collection Program materials as supplied and distributed by BMW Group Canada and BMW Group Financial Services from time to time.

TERMS AND CONDITIONS:

To provide and maintain the integrity of the BMW Individual Collection Program, it is agreed that:

- The Retailer herein commits to full participation in the program and pledges to ensure the sales department at the retail centre will keep current with all aspects of the program.
- The retail centre shall acquire and make available the BMW Individual Collection Program display items as directed and supplied by BMW Group Canada.
- A minimum of one BMW Individual Collection specified vehicle shall be retained in Retailer stock and on display at the retail centre at all times. Any deviation from this requirement must be approved in advance by BMW Group Canada.
- The BMW Individual Collection Program may be subject to special ordering procedures which must be followed and adhered to by the retail centre at all times. All orders are to follow the BMW Individual Collection Program ordering guidelines including the combination and colour-upholstery guidelines as directed by BMW Canada from time to time.
- BMW Canada commits to use its best efforts to supply BMW Individual Collection Program vehicles ordered by the Retailer on a timely basis. However, the BMW Individual Collection Program is subject to availability provided by BMW Group Canada's parent company, BMW AG.
- This agreement may be terminated by the either party with ninety (90) days written notice. However, if such notice is given by the Retailer, all BMW Individual Collection Program vehicles currently on order with BMW Group Canada by the Retailer will be the responsibility of the Retailer unless otherwise indicated by BMW Group Canada.

Exhibit 6 (continued)**RETAILER PARTICIPATION COMMITMENT**

The Retailer herein agrees to the above terms and conditions of the BMW Individual Collection Program which is signified by the authorized signature applied below:

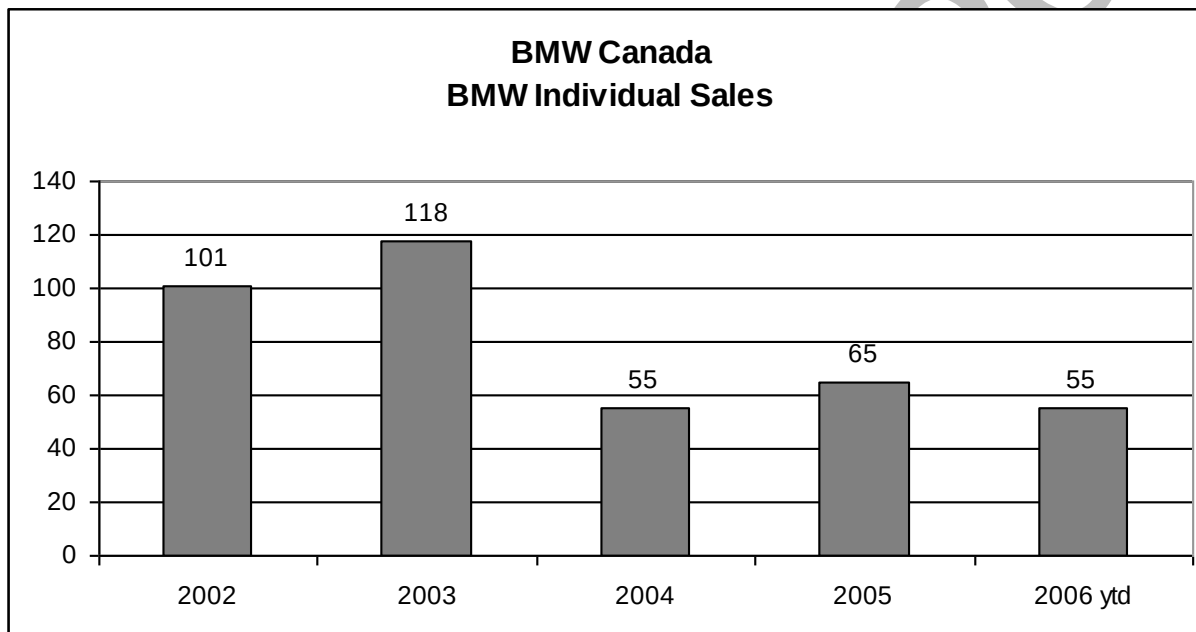
Retailer X, Retailer Principal

Date

Source: BMW Group Canada

Exhibit 7

HISTORICAL BMW CANADA INDIVIDUAL RETAIL VOLUMES



Source: BMW Group Canada