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THE BIG STORY / AUGUST 2017

BMW'S identity crisis

BY TOM MURPHY

A storm is brewing in Munich, and it won't blow over anytime soon. Taking cover would be advised, except the only way to ride out this squall is with leadership making bold decisions to correct a series of missteps that have angered dealers, disappointed consumers, baffled analysts and knocked the BMW brand on its heels.



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Powertrain culture runs deep at BMW, as seen in “four-cylinder” headquarters building in Munich.

What’s most intriguing, the blue and white roundel is doing fairly well in most overseas markets but now is suffering in two that are the most important: Germany and the U.S. For years, both have been safe shelters for increasing sales volume and profits.

Mini and Rolls Royce are doing OK as small pieces of the BMW Group, but ominous clouds clearly are visible for the BMW flagship brand:

■ EUROPEAN SALES ARE SUFFERING.

Audi has outsold BMW every year since 2009, and Mercedes-Benz, the unmistakable luxury leader in Europe, has increased its lead. Meanwhile, Jaguar, Land Rover, Porsche and Lexus have more than doubled European sales since 2009, newcomer Infiniti has come on strong and Volvo is gaining steam, according to *WardsAuto* data.

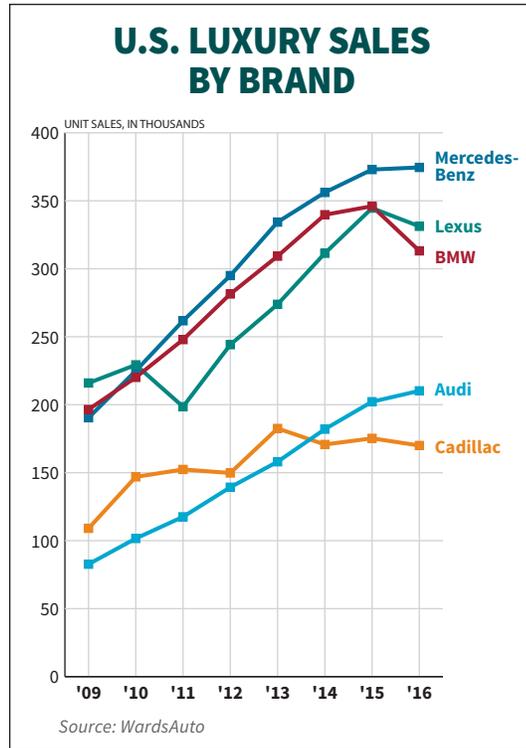
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U.S. SALES HAVE FALLEN OFF A CLIFF.

Virtually every luxury brand expanded U.S. sales in 2016 at a faster clip than BMW. Since January, most luxury brands have continued that growth, but only BMW shows a precipitous drop in sales through the first six months.

Mercedes remains the No.1 premium brand in the U.S., and Lexus surpassed BMW for the No.2 slot in 2016, according to *WardsAuto* data. So far this year, BMW is back in the second position, but Lexus

is close behind.

Thirteen years ago, BMW utility vehicles outsold their Mercedes rivals in the U.S. more than two to one. It's been downhill since. Last year, Mercedes utes outpaced BMW deliveries by 46%.

U.S. DEALERS ARE FRUSTRATED, AGITATED.

At January's NADA Convention and Exhibition in New Orleans, representatives of about 150 U.S. dealers crowded into a closed-door meeting to vent that Munich's overly conservative approach to interior and exterior styling has cost the brand many of its most passionate customers.

Dealers also complain about marketing messages that have been weak or inconsistent, and they find showroom upgrades demanded by BMW to be less than electrifying. One symptom: Audi transaction prices are more robust than BMW's, according to a dealer with both franchises.

Without serious changes, dealers expect the BMW franchise meeting at NADA in 2018 will be even more contentious.

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CUSTOMERS NEED TO FEEL SPECIAL.

Enjoying a glass of champagne or being soothed with soft music is part of the experience of shopping for a luxury car.

Lincoln is making inroads by treating customers like royalty and sending dealer representatives to pick up vehicles needing service. “I’ve personally shopped at several BMW dealers and even owned/leased a couple, and I wouldn’t describe the sales/service experience as that much different than at a non-premium brand dealership,” an industry analyst says.

“Upping the level of service in ways that add value to the customer’s life is something BMW should definitely explore.”

THE BAVARIAN MYSTIQUE IS FADING.

For years, BMW was the brand every automaker wanted to be. Its engines were the envy of the powertrain world, suspensions seemed to establish a telepathic connection between road and



N55 inline 6-cyl. turbo in BMW M2.

driver, and chassis engineering left nothing to be desired.

Today, the engines remain first-rate, but sport sedans and coupes are being replaced by heavier utility vehicles that will never handle the same.

The competition has spent so much time emulating BMW that consumers can find fun, sporty luxury coupes and sedans in other showrooms, generally for less money.

“For many years, BMW had a crystal-clear brand identity: The Ultimate Driving Machine. It was a very understandable and very well differentiated position in the luxury marketplace. There was no mistaking a BMW for anything else,” says Ed Kim, vice



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After vintage racing at Mazda Raceway Laguna Seca in 2015, Ludwig Willisch (left) chats with retired BMW driver Brian Redman.



president-industry analysis at AutoPacific.

“Today’s luxury customer has a lot more choice when shopping for a performance luxury vehicle,” Kim writes in an email to *WardsAuto*, noting Lexus, Infiniti and Cadillac all have models that stack up fairly well against BMW entries. Other examples include the new Acura TLX and Alfa Romeo Giulia.

“BMW products simply aren’t as well differentiated from other luxury vehicles as much as they used to be. This creates a product and market challenge,” Kim says.

“This is why BMWs do not sell themselves like they used to.”

SHAKING UP MANAGEMENT

From the outside, BMW appears to be a company in turmoil. Karim Habib was head of BMW brand design but “left the company of his own accord” in February after less than five years on the job.

In late July, BMW announced the retirement of two long-time pillars of the company: Ian Robertson, a board member overseeing sales, stays on until 2018, while Ludwig Willisch, who managed BMW Group sales from

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**Bernhard
Kuhnt
takes North
American
reins from
Willisch.**



Canada to Argentina and served until recently as president and CEO of BMW of North America, makes a hasty exit Aug. 1 after 21 years with the company.

Bernhard Kuhnt replaced Willisch earlier this year atop BMW of North America, and now he also assumes full responsibility for BMW Group Region Americas.

The automaker declined to make Kuhnt available to comment for this article. But a BMW insider says “change is in the air at BMW,” and that the challenges are being addressed at many

different levels of the company, “including the relationship with our dealers and the need for new, exciting models.”

Dealers and customers may want a rapid transformation with breathtaking interiors and head-turning sheet metal by next spring, but a freighter doesn’t turn that quickly in the harbor.

This year, the all-new innocuously styled 5-Series sedan has arrived to yawns, inciting more handwringing, even though the car drives well and benefits from much of the break-through tech-



Critics disappointed with styling of new BMW 5-Series.

nology installed on the pricier 7-Series more than a year ago.

BMW hopes to stir the faithful later this year when the redesigned sixth-generation V8-powered M5 launches with “about 600 hp” and an innovative rear-biased all-wheel-drive system whose performance can be tailored for multiple driving situations. In November, the 6-Series Gran Turismo goes on sale.

Besides midcycle refreshes for the 4-Series and M4, the redesigned third-generation '18 X3 utility vehicle arrives later this year,

looking much like the model it replaces, minus the character line that tapers down toward the front wheels for a bit of sportiness.

A bolder styling statement with the new X3 would have been understandable, given the outgoing model's fall in the sector.

In fact, BMW's two most important offerings in *WardsAuto's* Middle Luxury CUV segment, the X3 and X5, now occupy sales slots seven and eight, respectively, in this fierce battleground, trailing (in order) the Lexus RX, Cadillac XT5, Mercedes GLE, Lexus

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**Redesigned
BMW X5s
go off-
road near
Vancouver
during
2013 media
launch.**



(aggressively designed) NX, Audi Q5 and Acura RDX.

BMW doesn't even have a true 3-row Large Luxury CUV to compete with the Acura MDX, Audi Q7, Infiniti QX60, Mercedes GLS and Volvo XC90. In that segment, BMW next year will roll out the X7, to be built at its plant in Spartanburg, SC.

Also coming next year is the new 8-Series sedan, compact X2 CUV (from Germany) and redesigned versions of the X4 and X5 utes, both from Spartanburg.

“This is only the beginning of the biggest product offensive in our history,” a BMW insider tells *WardsAuto*. “You’ll start to hear and see more of this soon,” likely at this month’s Concours d’Elegance classic car fest at Pebble Beach and “continuing through to the Los Angeles auto show, where we’ll showcase several new high-profile products.”

All this upheaval comes after a decade in which BMW has flooded the market with new models: 2-Series, M2, i3, i8, hybrids, plug-

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Lithe M2 at home on track.

in hybrids, X1, X4 and a seemingly endless stream of variants of the 3-Series sedan, which now is separated from the 4-Series coupe.

The 3-Series, the shining star of the lineup and longtime volume leader, is being outsold this year by the Mercedes C-Class, now assembled in Alabama.

SPORTS CARS IN A CUV WORLD

BMW finds itself in the unfortunate position as the only automaker in the world heralded for generations of lust-worthy luxury sports cars with precise handling at a time when well-heeled buyers care more about

a soft ride, room for Costco runs, a command-seating position and Bluetooth phone pairing.

BMW has participated actively in the growth of luxury utes and has provided access to popular apps and new infotainment features, while continuing to expand its “M” performance variants.

Still, its core philosophy in the home market of *Freude am Fahren* (the joy of driving) seems less relevant as the automaker attempts to grow its customer base beyond enthusiasts who pay close attention to driving dynamics.

This dumbing down of the product has rattled the loyalists, says a German industry analyst, add-



BMW 428i came to market in 2013 as coupes separated from 3-Series sedan lineup.



ing that rival Mercedes-Benz has succeeded in turning traditional luxury cruisers into great drivers.

“I’ve even heard some BMW drivers switch to Mercedes because simply the handling is very good and the cars come with aggressive design,” says the analyst, who spoke on condition of anonymity and criticizes BMW interiors for styling that barely changes from generation to generation. In some cases, he sees cost-cutting efforts resulting in downmarket materials.

“I said to the dealer, ‘This is not a BMW anymore,’” the analyst says of a recent visit to a European

showroom. He says the push for “downgraded interiors” in the 2-Series and 3-Series is probably designed to make those vehicles more affordable for buyers who are considering a step up from the Mini brand, which falls under BMW Group ownership.

At the upper end of the market, the 7-Series sedan incorporates impressive technology and was redesigned a year ago.

Yet, through July, 7-Series deliveries in the U.S. are down 25.4% from year-ago and are badly trailing the S-Class, which introduced a dramatic, breathtaking interior



BMW's Ulrich Ströhle discusses design philosophy behind X5 interior.



design language two years earlier. The undisputed king of the Upper Luxury car segment is the all-electric Tesla Model S, which is outselling the 7-Series more than 3-to-1.

Another European analyst says BMWs simply have become less desirable, referring to dealers offering shockingly low prices for the freshly launched 5-Series. Such discounting usually doesn't occur until later in a model's life-cycle.

The analyst says he is aware of colleagues who used to drive

BMW X5s now "switching to Range Rovers, Porsches and Mercedes" because they see few stylistic differences from the previous X5 to the current one.

Through July, BMW CUV sales in the U.S. are up 12.2% while car deliveries are down 14.9%.

Providing independent confirmation of BMW's slide is Kelley Blue Book's Brand Watch Survey, which is conducted quarterly to see how models in specific segments stack up to each other in multiple categories, such as styling and safety, based on consumer feedback.



Kelley Blue Book's Brand Watch Survey finds scores sliding for BMW 3-Series.



At the end of 2016, the previously bulletproof 3-Series topped all rivals in the areas of driving performance, reputation, interior layout, technology and fuel efficiency, the Kelley Blue Book survey found. By second-half 2017, the 3-Series led in only two categories (driving performance and driving comfort), and it also showed considerable drops in the areas of reliability, affordability, technology and fuel efficiency.

The 5-Series is faring even worse in the KBB survey. In the first quarter of this year, it led in the categories of driving perfor-

mance, reputation and sophistication. One quarter later, the premium sedan lost leadership in all those categories and also showed sizable declines in the areas of safety, affordability, interior layout, exterior styling and fuel efficiency.

ADAPTING TO A CHANGING WORLD

Complicating BMW's position in the market is a global regulatory environment driving automakers toward electric vehicles to reduce tailpipe emissions, even though consumers are not enthusiastic



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BMW's quirky i3 electric vehicle.



about driving them (Tesla's fanatical following not included).

The BMW Group has set a goal of selling 100,000 electric vehicles or hybrids, supported by a plan to electrify each brand and each model as well. Arriving this summer is the new Mini Countryman Plug-in Hybrid, to be followed next year by the BMW i8 Roadster, in 2019 with an all-electric Mini and in 2020 with an all-electric X3.

In 2021, BMW plans to launch the iNEXT, a self-driving electric vehicle with a larger footprint and

a retractable steering wheel. The iNEXT will be built in Dingolfing, Germany.

Exotic performance cars from Porsche, Lamborghini, Ferrari and even race cars now are integrating electrification, and BMW tried to get ahead of the trend by launching the (oddly shaped but affordable) i3 EV and (pricey but gorgeous) i8 plug-in hybrid.

But that was three years ago and the cars have not been runaway successes. Another consultant who spoke on condition of anonymity says BMW missed



a great opportunity to follow up the i3 and i8 sooner with a long-range Tesla type EV and dominate the space for premium EVs.

“I’m sure some other OEMs are coming with 400- or 500-km (249- to 310-mile) full EVs earlier than BMW,” he says, predicting electrics will make up 5% to 10% of BMW’s vehicle sales globally within five years.

The consultant points to the automaker’s legacy for innovative technologies and cultivating bright minds. “They are sitting in Munich, the most expensive city where you build cars in Europe. They have very smart engineers and high schools that attract the best people. BMW is known for innovation, and they can’t lose that brand characteristic.”

EVs represent another challenge to the BMW brand’s core attributes: No matter how good the electrified drivetrain, can it deliver a sustained exhilarating experience without high revs and spirited exhaust? Can the Ultimate Driving Machine be impervious to range anxiety?

The popularization of EVs is

merely one of the radical changes coming in transportation – from ride sharing to autonomous cars and self-driving shuttle buses.

These trends put people in the passenger seat rather than behind the wheel, leading to the inevitable dilution of driving enjoyment and BMW’s lifeblood.

It’s too early to predict how BMW responds and adapts to these seismic shifts, but either way the automaker may need to recast its famous advertising tagline by heralding The Ultimately Self-Driving Machine. **WA**



This story was written by Senior Editor Tom Murphy. Murphy has

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