

## **Sample: BMW Establishes Competitive Advantage Through New Plant**

### **Introduction**

The article that I chose is called "BMW Keeps The Home Fires Burning." I found it on the Internet, posted on the Business Week web page under Global Business. The article was chosen because it is an excellent example of a company, Bavarian Motor Works (BMW), achieving a competitive advantage through cutting-edge technology utilized by strategic leaders.

### **Analysis and Relevance to Class Material**

On May 13, German Chancellor Gerhard Schröder traveled to Leipzig to inaugurate BMW's new \$1.6 billion factory. The plant not only will employ 5,500 workers in a region of eastern Germany where unemployment reaches 21%, but it also secured \$454 million in European Union subsidies. With its revolutionary design, spacious interior, and hardwood floors throughout, BMW's Leipzig plant is raising the bar for luxury car manufacturers.

As we learned and discussed in Chapter 2, firms must have an integrated understanding of their environments in order to understand the present and predict the future. Most firms are faced with external environments which are turbulent, complex, and global—properties that make interpreting them increasingly difficult. BMW, through its explicit knowledge and understanding of its environment, has fought through these obstacles and taken a leap into the future. In the plant's body shop, robots equipped with lasers check part dimensions as they weld them and detect minute defects instantaneously.

To help you understand the full extent to which BMW has perfected its ability to exploit opportunities in its general environment, I will go through each segment with you and give examples. In the past, the company has focused demographically on the upper end of the income distribution. Now, like many other luxury automobile manufacturers, BMW is expanding its focus to lower levels of the distribution by introducing more affordable models around \$30,000.

Globally, BMW is at the top of its game. The most startling discovery about the new factory is that it is located in Germany, where labor costs for auto workers are the highest in the world at \$42 an hour. Throughout much of Western Europe, automakers and their suppliers are cutting thousands of jobs and moving production to Eastern European countries where costs are much lower. The Leipzig plant will be studied and analyzed by automakers everywhere in hopes of revealing the secret to building cars profitably in such a costly area of Europe.

Technologically and economically, the plant is unmatched. The star-shaped layout strategically locates administration, logistics engineers and quality experts at the center of the plant to increase communication speed by keeping managers and technicians mere steps from the production line rather than in a separate building. The assembly line is capable of producing any of BMW's 10 model series, which gives the company an enormous amount of flexibility in instances of changing demand, also a sociocultural segment advantage. I would also like to remind you about the laser equipped robots which are capable of checking the dimensions of parts, welding those parts, and detecting defects simultaneously. Ferdinand Dudenhöffer,

director of the Center for Automotive Research at the University of Gelsenkirchen, agrees, "The new factory is a benchmark plant in Europe."

Another sociocultural advantage, as well as a political/legal advantage, is the company's unparalleled labor flexibility from German unions. BMW Chief Executive Helmut Panke stated that this was the basis for the company's decision to locate the new plant in Germany. The line workers' agreement to work Saturdays without extra pay is an example. At the plant's inauguration, Panke stated that the agreement "makes a significant contribution to a competitive productivity level." Auto industry experts believe that this agreement "marks a major leap forward."

The facility's capability of being run for as many as 140 hours a week without accumulating overtime costs is yet another benefit extended by the arrangement. In comparison, BMW's Bavarian factories pay out 50% extra to workers on Saturday shifts. Helmut Panke claims that the Leipzig factory, when running at full capacity, can achieve savings of up to 20% of the plant's total payroll costs by not having to pay overtime. Jürgen Reers, partner at Munich consultancy Roland Berger, says, "BMW tries to make its plants flexible enough to extend running hours without new investment." This strategy allows the automaker to achieve operating margins of about 8%, which are among the highest in the industry.

## **Conclusion**

Bavarian Motor Works, through the effective and efficient analysis of its environment, has successfully formulated and implemented a value creating strategy. The strategic competitiveness the company has been able to achieve is one in which other companies in the industry are currently unable to duplicate for one or more reasons. This sustainable competitive advantage is one of many reasons that BMW has been a leader in its industry and continues to achieve above-average returns.