

How BMW plans to stay No. 1

Eyes younger buyers with new 1-series line and will broaden offerings in other segments

GREG KEENAN
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TORONTO — After increasing vehicle sales for 17 consecutive years, it might be tempting for **BMW Group Canada** to pause and savour its rise to the No. 1 ranking in the premium and luxury market in Canada.

Instead, however, president Lindsay Duffield will preside over a continued expansion of new vehicles in new segments - including the compact 1-series car this year - as the auto maker broadens its product range in Canada as part of a worldwide offensive.

"That's what keeps the brand healthy," Mr. Duffield says as he pilots a 1-series on a Toronto expressway.

Along with BMW, the luxury market as a whole has taken off in the past two decades, growing by more than 50 per cent since 2000 alone.



Lindsay Duffield, president of BMW Group Canada



"It is one of two growing segments in the marketplace," says industry analyst Dennis DesRosiers, president of DesRosiers Automotive Consultants Inc. of Richmond Hill, Ont.

The growth has been spurred by aging baby boomers flush with cash and a proliferation of new products from luxury auto makers offering everything from full-sized sport utility vehicles to micro-compact cars.

BMW has outperformed even that pace. Its sales have more than doubled since 2000, hitting 24,031 last year compared with 11,022 in the first year of the decade.

But tailgating Mr. Duffield are a revitalized **Mercedes-Benz Canada Inc.**, which posted its second consecutive sales increase last year to reverse a three-year slide, and Lexus, where sales have doubled in five years to hit 13,388 last year from 6,514 in 2002.

Enter the 1-series, which Mr. Duffield figures will generate between 2,000 and 3,000 new buyers for BMW for a car that he says is designed to recall one of the early successes the Germany-based auto maker enjoyed in the 1970s, the BMW 2002 model.

"We kind of want to hearken back to the 2002 with that small car with the big engine," he says.

As BMW and its customers grew after that, the size of its cars expanded, to the point where a 3-series of today is the same size as a 5-series was several years and the 5-series sits in territory once occupied by the 7-series.

That leaves an opening at the small end to target buyers who are in their early to mid-30s, or about 10 years younger than the typical buyer of the 3-series. The lowest-price 1-series comes in at \$33,900, compared with a little less than \$36,000 for the least expensive 3-series.

"What we don't want to do is sell a 1-series to somebody who was going to buy a 3-series," Mr. Duffield says. "Our intent is to conquest, not cannibalize."

The 1-series will be joined by the X6 sport utility vehicle this year and a smaller SUV called the X1 later in the decade.

But part of the strategy is also to have different variants of a particular model, Mr. Duffield explains, pointing to the 3-series, which offers three separate engines, a coupe and convertible version and this year an M3 high-performance model.

New vehicles are the key to success for all auto makers and have been crucial for BMW, notes Mr. DesRosiers.

"You start with product and then they completely renewed their dealer body before just about anybody," Mr. DesRosiers said. "You go top to bottom across the nation and they have the image store in most market places and as the luxury market became much more image-oriented, they were ahead of the pack."

The auto maker and its dealers have spent about \$200-million since 2001 upgrading dealerships and opening new ones, Mr. Duffield says.

Adding stores needs to be done prudently, he says, pointing out that BMW ranked third in vehicle sales per dealer last year.

BMW dealerships sold an average of 632 vehicles in 2007, trailing only **Honda Canada Inc.** and **Toyota Canada Inc.**

"You need that kind of throughput to allow the retailers to make a good return on their investment," Mr. Duffield says.

BMW opened a second dealership in Edmonton in 2005 and doubled sales in the Alberta capital the next year.

Dealerships will be added this year in Moncton, N.B., and one in Ajax, Ont., will replace the one adjacent to the company's head office, which is moving to Markham, Ont.

Outlets in Barrie, Ont., and Kingston will follow during the next few years.

The decision on whether to bring to Canada new vehicles developed in Europe begins with a long-range planning meeting held every year that looks at the product portfolio plans going out six years.

The Canadian unit, which now represents BMW's 12th-largest market worldwide can accept or reject a product for sale here, but Mr. Duffield acknowledges that usually the U.S. unit also has to be on board.

"For the most part, you need a North American volume to justify it," he says.

The 1-series, for example, will be sold in Canada with a six-cylinder engine only, even though it's offered with four cylinders elsewhere around the world.

In part, that's because the four-cylinder is a lean-burn engine that requires gas with less than 10 parts per million of sulphur, a standard that Canadian gas does not yet meet.

The company also believes that premium car customers want a six-cylinder engine, Mr. Duffield says.

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