

## **Investigating Strategic Alignment through Project Implementation - The Case of BMW i**

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### **ABSTRACT**

In recent years, project management has become more concerned with strategic alignment whereby project success is defined in part by its ability to align with the organization's overall strategy. Oftentimes, a project can be implemented successfully but not contribute to company success because it was not adequately incorporated into the company's organizational framework rendering it inept. This emphasis on strategic project management can be seen throughout various industries, where more and more project managers and concerned with strategic alignment as a measure of success. This paper attempts to look at strategic project management from a practical perspective, by investigating the strategic project alignment of BMW's Project i with the company's overall business strategy.

### **INTRODUCTION**

The orientation of business activities in a company wishing to maintain a competitive advantage within an evolving market requires an emphasis on strategic intent. Strategic intent refers to a defined course that a business plans on taking over a given period of time, in order to establish and maintain a leading role in the market (Campbell and Yeung, 1991). The strategic intent must be clearly defined and understood, it should be consistent yet flexible in order to allow a company to take advantage of new opportunities that arise (Hamel and Prahalad, 1989). It also incorporates long-term goals which force the company to compete in innovative ways (Hamel and Prahalad, 1989). During this course, the strategic intent requires a company to take specific actions in order to achieve its strategic goals, including the development and implementation of advanced projects. The ability to realize these projects in accordance with the company's overall strategy helps attribute to the success of not only the project but the company on a whole. Successful alignment of projects requires consistency in the mission, vision and objectives throughout the company's operational framework.

With BMW Group's strategic objectives focusing on growth, shaping the future, access to technology and customers, and profitability, the ability to adjust to market fluctuations with new projects is necessary to maintain a leading strategic position. This is particularly true for today's shifting markets which are reflecting changes in lifestyles as a result of depleting resources, ecological concerns, growing populations, and similar. With that in mind, this study will analyse the strategic alignment of BMW through the implementation of its projects. Starting with the establishment of the BMW Group and their rise within the premium automobile industry, this research will demonstrate how the organization implemented their new corporate strategy

“Strategy Number ONE” as a response to changing market trends. The new mission and vision which developed as a result, were based on sustainability. The study will investigate how this change in strategy, which led BMW Group to invest in Project i, encouraged growth and the development of new technology, as well as contributed to shaping the future of sustainable e-mobility. It will present the evolution of Project i into the Group’s new series, BMW i, which led to both the electric i3 and hybrid i8 models as well as corresponding mobility services. Finally, this study will establish how BMW Group was able to successfully align their Project i initiative with their overall strategy and establish strategic intent through the implementation of BMW i into the Group’s portfolio.

## **BMW GROUP**

### **History and Establishment of the Brand**

Founded in Munich, Germany, BMW Group began operations in 1916 as an aviation company. The Group experienced significant success in the late 1930s, both on a domestic and regional level, largely due to a broadened product line which included motorcycles and automobiles (Norbye, 1984). Political and economic factors in 1945 nearly led the BMW Group into bankruptcy, necessitating reform on an organizational level (Nerad, 2006). Restructuring in this period saw the BMW Group turn towards new market segments focussing on high-performance and quality, a strategy which would become their model for success (Norbye, 1984). According to BMW Group’s 2013 Annual Report (2014), the company conducts activities in 150 countries with 28 manufacturing facilities in 13 countries, and a human-resource capital of 110,351 employees worldwide. They are an international leading luxury car and motorcycle manufacturer with 76.1 billion euros of reported revenue in 2013, and an automobile sales volume surpassing 2 million in 2014 (BMW Group, 2014a).

The BMW Group currently operates under four brands:

- BMW (79.62% sales volume)
- Mini (14.67%)
- Rolls Royce Motor Cars (0.17%)
- Motorrad (5.54%)

Each of these brands operates autonomously, producing a series of product lines or sub-brands within their segments. BMW is arguably the Group’s most successful brand, accounting for the largest portion of BMW Group’s sales volume.

### **Premium Automobile Industry and the BMW Brand**

The BMW brand specifically operates in the premium automobile industry, with a mission stating “The BMW Group is the world’s leading provider of premium products and premium

services for individual mobility.” (BMW Group, 2012) The company’s vision and strategic objectives up to 2020 are clearly defined in the realignment strategy known as “Strategy Number ONE”. This strategy will be discussed in further detail later.

The BMW brand is organized into three sub-brands:

1. BMW
2. BMW M
3. BMW i

BMW is the brand focussing on production for nearly every automobile class within the premium car market. BMW M focuses on high-performance sportline concepts and can be offered in the form of add-on tuning packages for BMW vehicles. BMW’s newest brand, BMW i, focuses on an innovative holistic approach to mobility and automotive design to attain sustainability in current shifting markets.

Despite heavy competition from brands such as Mercedes-Benz and Audi, who also offer a wide range of high-quality products spanning the automobile classes, BMW preserves its competitive advantage. Its strengths are founded on strong branding which encompasses the following four values (Noealt, 2009):

1. High-performance corporate culture;
2. Customized brand experience for customers;
3. Revolutionary product design; and
4. Cutting edge technologies based on Research and Development (R&D) capabilities.

Figure 1 demonstrates how BMW is positioned in the industry against its competitors, particularly concerning revenue, sales volume and R&D budgets. BMW had greater product turnover and revenues than both Mercedes-Benz and Audi in 2013. They also invested nearly 1 million euros more in R&D than their competitors. Consequently, BMW is able to maintain a strong competitive advantage, ensuring a leadership position in the premium automobile industry.

**Figure 1: BMW Global Positioning in Comparison to Competitors (2013)**

	Revenue (€ million)	Sales (Units)	R&D (€ million)
<b>BMW</b>	70,629	1,655,138	4.792
<b>Mercedes-Benz</b>	64,307	1,565,563	3.751
<b>Audi</b>	49,880	1,575,480	3.966

(BMW Group, 2014a; Daimler, 2014; Audi, 2014)

## Shifting Market Trends in the Premium Automobile Industry

BMW currently faces various market challenges in the premium automobile industry which can be organized into three main driving forces for change; (i) shifting and growing populations; (ii) lifestyle changes; and (iii) environmental factors. Global population growth has led to an increase in automobile demand that is expected to continue growing, particularly in developing countries (Chan 2007). Alongside population growth is urbanization resulting in increased population density within cities, leading to the need for innovative and flexible mobility concepts and vehicles (Winterhoff et al., 2009). Shifting mentalities have also attributed to this demand as changing lifestyles have become more concerned with providing sustainable options on the back of environmental concerns (Dijk et al., 2013; Sadek, 2012). Environmental factors affecting the industry include climate change and diminishing natural resources, attributing to shifts in production approaches now looking to find sustainable and green forms of operation (Sadek, 2012). Reducing the emission of CO<sub>2</sub> and other greenhouse gases which are harmful to the environment has become a priority for the transport sector (Van Wee, 2012). The car industry has been specifically targeted by governments worldwide with CO<sub>2</sub> emission reduction demands (Dijk et al. 2013; Chan 2007; Ulrich 2013). For example, the European Union has implemented an emission standard for new vehicles sold within the EU (European Commission, 2007). The fear of depleting natural and energy resources (Sadek, 2012), both as a result of population growth and technological advancements, is also a growing concern for automakers. The need for alternative and sustainable models of transport, such as electric cars that no longer rely on traditional fuel sources, is growing (Schwedes, et al. 2014).

Competitors have already begun capsizing on changing market demands by producing sustainable automobiles. In the compact car category, many brands have been producing fully electric cars. These include Nissan's Leaf, Renault's Zoe, Volkswagen's E-Up and the Opel-Chevrolet joint venture products, Ampera and Volt. Even the premium, sports car market has seen an influx of new electric and/or hybrid vehicles emerging. Mercedes-Benz released their AMG SLS E-cell sports car while Porsche introduced the Panamera S E-Hybrid onto the market. While both of these premium vehicles are hybrids, Tesla took it one step further by producing an all-electric sports car, the Tesla Model S. With such a response from competitors, BMW needed to ensure they remained on top by producing their own solution.

## ESTABLISHING STRATEGIC INTENT

### Formulating a New Strategy – “Strategy Number ONE”

Changing market conditions spurred BMW to implement a new strategic realignment known as “Strategy Number ONE” in 2007. According to Chairman of the Board, Dr. Norbert Reithofer (BMW Group, 2007), BMW’s new strategy abetted the company in establishing a more favourable position than their competitors. “Strategy Number ONE” is founded on innovation and efficiency while focusing on growth, shaping the future, access to technologies and

customers, and profitability (BMW Group, 2007). These four pillars are the company's strategic objectives which help sustain their competitive advantage while forming the basis of the BMW vision of becoming the leading premium automobile product and service provider. These represent the strategy aims up to 2020.

1. **Growth** - This includes market expansion and re-evaluation of market segmentation. While BMW Group expects the highest absolute growth to be in Europe and the United States, they recognize that the highest growth rates in general will be in Asia, Latin America, Eastern Europe and Russia. This is why the growth strategy expanded to include China and India, specifically with regards to the production networks. However, they also enhanced the sales structures with new market strategies focused on customer orientation and support. (BMW Group, 2008)
2. **Shaping the Future** - Focusing on changing market conditions which include international population growth, depleting resources and environmental concerns, BMW Group accepted these challenges as an opportunity for contributing to the development of future markets. This pillar not only focuses on survival, but innovation guaranteeing future individual mobility as a basic necessity of changing living standards. (BMW Group, 2008)
3. **Access to Technologies and Customers** - This focuses on defining new relationships with partners and suppliers in order to ensure maximum contact with customers (BMW Group, 2008). It centres on innovation and initiative in market development through building collaborations and increasing technological reach.
4. **Profitability** - Ensuring profitability by decreasing production costs per unit, reaching economies of scale and minimising the effects of exchange rates is essential to this pillar. Stakeholders expect to receive a return on investments, particularly due to BMW's reputation as a premium manufacturer (BMW Group, 2008).

### **Shaping the Future of Mobility with “Project i”**

In 2008, after the implementation of “Strategy Number ONE”, BMW began investing in Project i (Verbrugge, 2014). The project was a direct response to the company's newly established strategic objectives for 2020. Project i's mission is to “develop new and trendsetting products, which fulfil the challenges and requirements of customers in an urban environment” (Sattig, 2014). This necessitates rethinking mobility by designing future cars that meet the needs of a changing society, while maintaining still BMW's status as a leader in the premium automobile market. The strategic objectives of Project i are directly derived from “Strategy Number ONE” in order to ensure alignment with the overall BMW Group strategy. The strategic objectives are:

1. **Generate Growth** - To expand markets by reaching out to new target groups, namely by developing innovative products and services (BMW Group, 2014b).
2. **Shaping the Future** - This objective is focused on market initiative, putting BMW in a position to establish new industry standards as oppose to imitating and following other market players. This differentiates the BMW brand from its competitors while furthering its image as a sustainable brand. (BMW Group, 2014b)
3. **Technologies and Customers** - Generating growth is heavily contingent on the ability to pioneer new technologies and designs, which is BMW's focus. In doing so, the company aims to provide visionary services for its customers while establishing new sales concepts. (BMW Group, 2014b)

The outcome of Project i was the establishment of a new BMW sub-brand, the BMW i brand, which is positioned alongside BMW's other existing brands (Verbrugge, 2014). BMW i is the direct result of Project i, therefore, it maintains the same mission, vision and strategic objectives.

## **STRATEGY IN PRACTICE – LAUNCHING THE BMW i BRAND**

When establishing the BMW i brand and its approach, the key term used to describe it was arguably 'holistic'. In developing the brand, BMW i focused on providing solutions for real world problems, not only by designing sustainable vehicles but by fashioning a whole lifestyle around them (Urken, 2013). With regards to its product line, BMW i includes the BMW i3 and BMW i8. However, the initiative extends further to include services that promote premium sustainable mobility in an urban environment (Urken, 2013). The head of BMW i, Ulrich Kranz, stressed the importance of sustainability for the brand noting that premium will be defined by sustainability in the future (Appel, 2013).

### **Sustainable Mobility – the BMW i3 and BMW i8**

BMW i3 and i8 are direct responses to the growing need for evolutionary and innovative mobility options; they are sustainable premium cars made for the future. BMW i3 is the first fully networked electric car designed for city living (BMW Group, 2014c); a mid-range, locally emission-free urban mobility solution. BMW i8 is a high-performance plug-in hybrid which combines the performance of a sports car while exhibiting similar consumption and emission patterns as a compact car. (BMW.com, 2014a) The design for both cars is based on an innovative vehicle architectural approach dubbed LifeDrive architecture. LifeDrive architecture consists of two modules; the upper Life Module and the lower Drive Module. The upper Life Module supports the passenger compartment made of carbon fibre reinforced polymer (Latorre, 2013), an extremely strong yet light-weight material that contributes to better performance and higher fuel efficiency. The lower Drive Module provides the vehicle with a low centre of gravity made of aluminium (BMW Group, 2014c). Also incorporated in the BMW i design is an electric drive system called eDrive technology. While the i3 model is a completely electric car, the i8 is

a plug-in hybrid which combines the use of the eDrive and a 1.5 litre, three-cylinder combustion engine (BMW Group, 2013a).

### **BMW i Mobility Services**

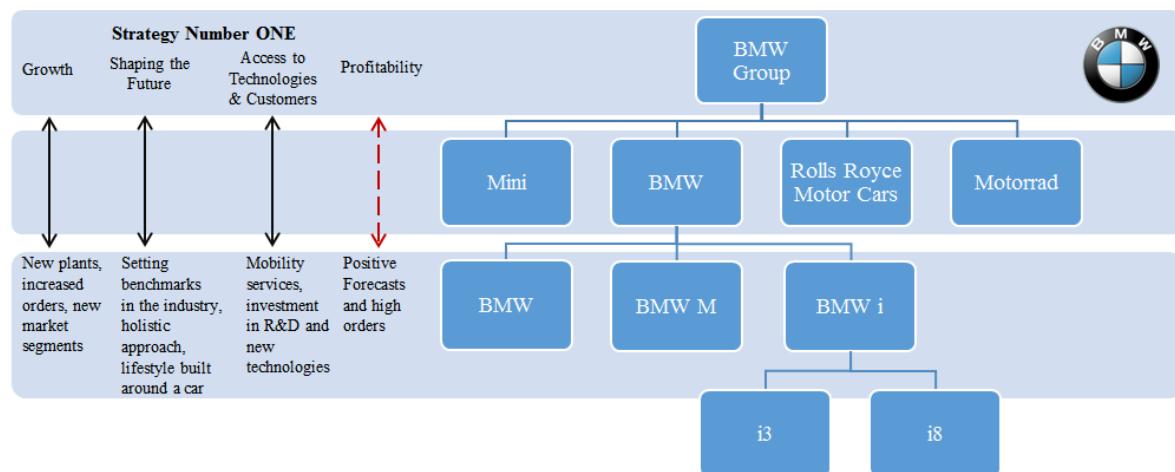
BMW i not only focuses on electric and hybrid vehicles, but the mobility services that help shape the future of mobility (BMW Group, 2013b). While these services are not exclusively tied to the BMW i vehicles and can be implemented independently, they uphold the same visionary principles that define the BMW i holistic approach. Specifically concerning the BMW i brand, the services available include (BMW UK, 2014):

- BMW i Genius – A system which allows BMW i users to text in any questions they may have related to their vehicle and receive answers in real-time. This facilitates the transfer from traditional to sustainable mobility option.
- ChargeNow – A service which lets BMW i vehicle owners locate their nearest public charge point to ‘fill-up’ their vehicle.

## **STRATEGIC ALIGNMENT OF BMW I TO “STRATEGY NUMBER ONE”**

Strategic alignment between the objectives of BMW Group’s “Strategy Number ONE” and the BMW i brand is clearly demonstrated in Figure 2.

**Figure 2: Strategic Alignment of BMW Group and BMW i Objectives**



According to Figure 1, BMW Group allocates more resources towards R&D than their competitors. This included investing in the technology used to develop Project i which took hundreds of millions of dollars of R&D (Ulrich, 2013). BMW Group has invested an estimated 2 billion euros in the project, with 400 million euros towards the production of the BMW i models at the Leipzig plant (Reinforced Plastics, 2013). While BMW Group firmly believes in the success of the project and its profitability from the on-start, some analysts express concern that the company could lose over 200 million euros a year, for a five year period, on the i3 alone

(Winton, 2014). Others remain optimistic claiming that while short-term payoff may not be certain, the return over a long-term can be expected. Estimates of the BMW i brand show it reaching a potential worth of 13 billion euros in the long run (BMW UK, 2014). However, profitability is not one of the strategic objectives of Project i, per say. In fact, comparing the objectives of “Strategy Number ONE” to those of the BMW i series, it can be seen that while they are identical in their desire to generate growth, increase access to new technology and customers, as well as be a leader in shaping the future, profitability remains a point of contention. This is because BMW i is more focused on creating a sustainable lifestyle centred on the vehicles, than the actual return on investment in the short-run (Urken, 2013). This can be seen through the subsidies offered to customers purchasing BMW i products, including the vehicles and services such as charge stations (Douglas, 2014). In this way, the BMW i is actively contributing to increasing access to new technology for existing and potential customers.

A return on investment, however, is expected in the long run although it is difficult to determine the exact timescale. BMW Group has been refraining from providing financial statements for the BMW i project alone, with only consolidated statements available, but the figures that are provided demonstrate promise. BMW initially projected that sales of the i3 would reach 10,000 by the end of 2014 (Rauwald, 2014), a substantial increase from the 311 units sold in 2013 when it was first introduced onto the market (BMW Group, 2014a). But sale expectations have now further increased, with BMW projecting twice the number of i3s to be sold, which is 20,000 units by the end of the 2014 fiscal year (Rauwald, 2014). In Europe alone, 10,000 i3s were pre-ordered (Sung, 2013). The i8, which was released on the market in June of 2014, has an expected production rate of 2250 units for the same period (BMW Group, 2014d). Production facilities have also been accommodated to meet anticipated market demands by being able to produce some 40,000 BMW i model vehicles per year (Dry Composite, 2013). Subsequently, the company as a whole was able to set new production volume records and even outdo sales volume fluctuations (BMW Group, 2014a). It should be noted that the BMW i series is not readily available, with cars being produced once ordered – the current waiting time for the i3 is about 20 weeks, and for the i8 ten months in Scotland (Douglas, 2014). With BMW recently introducing the BMW i onto the North American and Chinese markets, growth and demand are expected to continue increasing (Cole, 2014), attributing to a positive outlook on investment return in the near future. Thus, despite not focusing on profitability at the moment, it is clear that there is significant monetary potential in the BMW i series. In this sense, the strategic intent of the Group is maintained even in the projects so called disregard for profits (Figure 2). Not to mention the clear emphasis on growth as can be seen through the increased production, demand and market penetration all within a relatively short period of time.

The added value of the BMW i project, however, far extends fiscal benefits. The project has generated over 1500 jobs since its implementation, encouraging human resource development within the company (BMW UK, 2014). It has also created a new channel for reaching customers by producing innovative vehicles that take advantage of modern technologies. The mobility

services enhance the BMW i models providing added value by making the transition from traditional mobility to futuristic mobility smoother. They contribute to the overall experience, making the BMW i vehicles more than just a means of transport, but rather a lifestyle choice. The technology used also upholds the relationship with customers, such as the BMW i Genius which provides real time support. BMW i not only catapulted the BMW Group into a new market segment, and therefore customer segment, but has solidified the company's position as a leader in sustainability with its new innovative approach to e-mobility (BMW Group, 2014a).

For the past 15 years, the BMW share has consistently been listed among the top three in the Dow Jones Sustainability Indices (DJSI), the only carmaker to hold this feat (BMW Group, 2014a). The BMW i project is ensuring that the trend continues by maintaining BMW's strategic intent. As mentioned earlier, the LifeDrive architecture design used in all models of the BMW i series differs from BMW's other products both visually and fundamentally. The vehicles require the use of different materials which is why BMW established a carbon fibre manufacturing process in the USA that uses 100% renewable energy from a nearby hydroelectric power plant (BMW.com, 2014b). The investment resulted in BMW setting new benchmarks for sustainability in the automobile industry since the production process reduced energy and water consumption by about 50% and 70% respectively (BMW.com, 2014b). What's more the BMW i3 is made of 95% recyclable materials (Kennedy, 2014) while all BMW i vehicles are equipped with electric powertrains that attribute to the reduction of fleet carbon emissions (BMW Group, 2014d). These standards are the future of the automobile industry, particularly in a world that is becoming more and more concerned with depleting resources and climate change (Kotler, 2011). As follows, BMW Group's intention of creating a lifestyle around sustainable e-mobility in an attempt to shape the future of the industry and society in general, has been realized with the BMW i series.

## CONCLUSION

This study analysed the strategic intent of BMW Group through the implementation of Project i in accordance with their "Strategy Number ONE". The results indicate that the strategic alignment of Project i to BMW Group's overall strategy was a success. This may be seen in the parallel between the Project's strategic objectives to those of the BMW Brand and Group as a whole. Namely, the success of establishing the BMW i brand in order to meet the Group's four objectives of generating growth, increasing access to new technology and customers, shaping the future and eventually contributing to profitability.

The organization was able to deliver a product that not only competes with other electric and hybrid vehicles on the market, but created a league of its own. The i3 and i8 maintain the same BMW integrity and quality that make the brand such a success to begin with, while providing a new aspect to the experience. Buying the vehicle itself is not enough, the BMW i series goes one step further by building an entire lifestyle around a car. From the environmentally conscious production, which integrates sustainable production methods including recyclable materials and green operations, to the design which enhances performance while reducing the detrimental

ecological effects often associated with transport. This holistic approach emphasize BMW's intent to be the creator as oppose to the follower with regards to premium car manufacturing for the future.

The fact that profitability was not stressed at the beginning of the project implementation is another point of regard for the organization. Investing heavily in sustainable mobility, losing in the short term for the benefit of the long term, proved extremely beneficial. It allowed BMW to implement new business practices organized around innovative technologies, eventually producing the BMW i design which makes it so successful. The LifeDrive architecture which incorporates carbon fibre represents this change, while maintaining the integrity of the BMW brand. The only downside to the design is the material used for the interior casing and dashboard on the basic model of the BMW i3. It appears inexpensive and, therefore, not up to BMW standards. However, it is made of 100% recyclable materials, namely eucalyptus leaves, showing the company's commitment to ecological sensitivity. Other efforts such as seats made from recycled plastic bottles, and a significant R&D budget supporting green-development, represents BMW's determination in producing a fully sustainable vehicle for the future.

The organization's ability to realize the importance of implementing Project i in an attempt to spur the new strategy is overall impressive. They not only produced a competitive brand to meet changing market demands, but created a solution to problems they were bound to meet in the future such as diminishing natural resources, condensed populations and changing legislations. Current numbers and future projections solidify the findings of this study, how BMW aptly implemented its strategy through projects. Nevertheless, further research is needed to validate the findings and re-evaluate them against the background of new metrics in order to completely measure the success of the BMW i brand.

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