

Why Do BMWs Cost So Much?

Here Are The Nine 1978 Models And Their Prices:

R60/7	\$3420	R100/7 Special	\$4495	R100S Sport	\$5025
R80/7	\$3850	R100S Regular	\$4735	R100RS Regular	\$5630
R100/7	\$4095	R100S Touring	\$4900	R100RS Motosport	\$5750

For the cost of one BMW R100RS Motosport, you can buy two Yamaha XS750s and collect \$1149 in change. You can also get three Kawasaki 650s or nine Hodaka Road Toads. Why?

The reasons are myriad and relate more to the fiscal whims of world economics than the hardware itself. Tracing the exchange rate between Dollars and German Marks shows that the good old "four-to-one" days when a buck bought four Marks were gone by 1970 and halved by 1978. Now a Dollar buys only about two Marks.

Dollars To Marks

1970	..... 27¢	..... 1 Mark
1971	..... 28¢	..... 1 Mark
1972	..... 30¢	..... 1 Mark
1973	..... 30¢	..... 1 Mark
1974	..... 34¢	..... 1 Mark
1975	..... 39¢	..... 1 Mark
1976	..... 40¢	..... 1 Mark
1977	..... 43¢	..... 1 Mark
1978	..... 49¢	..... 1 Mark

In 1970 a BMW R75/5 cost \$1848. Today the exchange rate alone would make the same machine cost \$3351, an increase of \$1503, or 81 percent. Today's equivalent of the 1970 R75/5 is the R80/7, which costs \$3850, up 108 percent from 1970's cost of \$1848. We've just accounted for 81 percent of that raise. But what about the remaining 27 percent?

Pure mathematics computed with readily available figures will not explain the sources of this remaining percentage increase as it did the first 81 percent. *Motorcyclist* therefore contacted Francis M. Reps, who manages a \$250 million pension trust which has been rated consistently in the top five among 100 trusts analyzed by Merrill Lynch Pierce Fenner & Smith. Reps, a motorcyclist and former BMW owner, has a direct line to Dr. Kurt Richebacher, chief economist of the Dresdner Bank in Germany. Most of the explanations that follow come from material researched by Reps and Richebacher.

Since 1970 hourly wages in Germany (based on adjustments for price rises) have gone up by 48 percent. The reason for this enormous rise—compared to 13 percent in America—is due to the German business tendency to accept anything but a strike. The trade unions have therefore found it relatively easy to push through super-high wage rises.

Compounding this cost to employers is another even more staggering expense.



The German social system has now reached the point where the public sector absorbs almost 60 percent of total savings in private households. What this means is that social benefits such as hospitalization, unemployment compensation, social security, etc.—paid for by the government through taxes or directly by employers—represent 1.5 Marks for every one Mark in a worker's pay envelope. Thus it may cost a manufacturer up to 250 Marks to give a worker 100 Marks in take-home pay.

Three ways a company can help cope with these spiraling labor and benefit costs are (1) raise the price of his product as much as the market will bear, (2) replace expensive labor with cheaper capital, i.e. machinery, and (3) absorb part of the cost and accept lesser profits. BMW

has done all of these things. Assuming high wage and benefit costs in Germany account for approximately 10 percent of the remaining 27 percent cost increase we are trying to explain, that leaves 17 percent representing other costs.

Many of BMW's expenses are far greater because they produce in low volume compared to the Japanese. Cost of materials is more for a 5000-unit run than a 50,000 unit run. A prestige product such as a BMW must be advertised heavily to maintain a visible and confident profile. The cost of a double-page color ad in *Motorcyclist* is about \$5400. If BMW spreads that cost over 5000 units, the cost-per-unit is \$1.08. If the Japanese spread the same expense over 50,000 units, the cost is 11 cents each, or 90 percent less. Certification by U.S. Federal Agencies is another enormous expense for all manufacturers. Each model in the line must be checked for the proper headlights, reflectors, noise and emission levels, etc. This requires numerous inspections and requires that the bikes be run on dynos and several thousand miles on the road at the manufacturer's expense. The cost per unit for BMW is immense. Let's attribute about 7 percent of our remaining 17 percent to low-volume production. That leaves 10 percent unaccounted for.

According to a BMW spokesman German law requires that BMW's motorcycle division be taxed and audited completely apart from the car division. The motorcycles therefore have to make a profit on their own to remain alive. The spokesman said Japanese tax law allows shuffling of corporate money to fund a losing division. The Yamaha motorcycle division, for instance, could sustain a huge loss, which would not only be tax deductible, but would also be absorbed within the company by profits from the music and electronics division. In this way costs for things such as labor, R&D, the sales failure of a certain model, racing, etc., all have a financial back-up unavailable to BMW. Honda has its car division, Suzuki has cars and pre-fab houses, Kawasaki has shipbuilding, aircraft factories, etc., Harley-Davidson has AMF. BMW has to guarantee its cash flow all alone—by higher prices. Chalk up another 5 percent, which leaves us only another 5 percent to explain.

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BMW

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Here goes. BMW claims there are about 100 engineers working full time on product improvement. Indeed, since 1970 we have seen expensive technical additions to BMWs such as a five-speed transmission, disc brakes front and rear, integral fairings, magnesium wheels, a 12-volt electrical system, a single key system, locking gas caps, beeping turn signals, new switches, quieter and bigger engines, etc. Incredible styling breakthroughs such as the fully faired RS require research and development as well, all at a cost which represents the last 5 percent.

In simple terms these explanations account for the 108 percent rise in BMW prices since 1970. Dollar devaluation is obviously the main culprit and the reason for this relates to America's \$26.7 billion trade deficit, oil prices, the \$500 billion in U.S. money held in Europe, etc. However there are still unanswered questions. The Yen is rising in value, yet Japanese motorcycles haven't taken quantum leaps in price. Their models often undergo more changes in one year than all those found on the BMW since 1970 without significant price changes. Why does a 600cc BMW cost \$3420 and the 800cc which is basically the same except for a larger bore cost \$430 more? The difference between the most expensive BMW and the cheapest is \$2330—more than the cost of a new GS750 Suzuki—yet the difference in the actual BMW hardware, though significant, can't cost \$2330 to produce. Here is where it's clear that BMW is pricing for prestige and going after the carriage trade who savor the most expensive of anything. It's certain that the Sport and RS models are making the profit and the smaller machines are merely generating cash flow.

In spite of certain difficult-to-defend questions, *Motorcyclist* does not believe BMW or their dealers are ripping-off American consumers. Profits are being made, but not extraordinary ones. A spokesman for Butler & Smith, the U.S. BMW distributor, says their profits are lower than ever before: "There's no meat left to cut." BMW dealers work on a markup of 18-20 percent compared to the usual 25 percent for Japanese machines. BMW parts represent an even greater dealer profit squeeze at 30 percent margin rather than the more common 50 percent figure. Because BMWs begin with high quality material and engineering, they are expensive initially, and because they are built in Germany and bought with U.S. Dollars, they pretty much have to cost as much as they do. **M**

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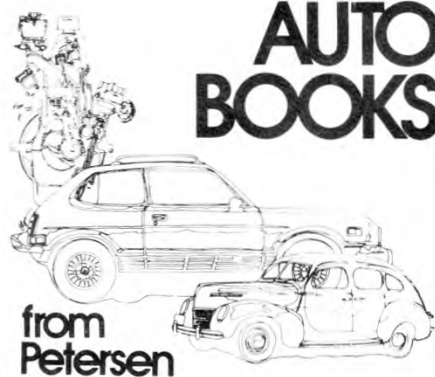
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