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**CAR Management Briefings**

**Traverse City, Michigan, August 4, 2010**

**Presentation by**

**Jim O’Donnell, President and CEO**

**BMW of North America, LLC**

Thank you, David, and good morning everyone.

It is a great honor and privilege for me to have the opportunity to address this seminar

which has been a focus of the US automobile industry since 1965.

Much of what has happened to the automotive industry since then would be truly

inconceivable to that generation’s auto executive. Resources – both precious and

renewable – are now on everyone’s mind. Seismic changes have shaken the

manufacturing ranks. Iconic brands have disappeared. New nameplates have emerged,

along with a whole new automotive vocabulary: Green cars. Hybrids. Electric vehicles.

BMW personifies how radically the car scene has changed. At the time of the first CAR conference – we were “a cult car” with annual sales of a few thousand units. Forty-five

years later, we’re the world’s leading premium automotive brand closing in on almost a

million and a half vehicles annually.

Perhaps most incredible of all… here we are….a German company, building cars and

providing thousands of jobs in the U.S. And since opening our plant in South Carolina in 1994, we have become this country’s largest exporter to non-NAFTA countries, contributing to the US’s balance of trade and reducing the BMW Group’s exposure to the US dollar.

We have created a strong bond with our customers – one that’s been developed and

nurtured for over 40 years and “The Ultimate Driving Machine” has developed into the

strongest brand claim in the industry.

However, today I’d like to discuss how the premium auto industry will continue to shift

and crystallize in the next decade or so. We have a fairly strong conviction that the future

will demand dramatic changes in the ways that we conceive, build and market new

automobiles.

Borrowing from this background and experience, in the next few minutes I’d like to provide

a snapshot of how we believe the premium business will evolve in the next 10 years or so…

from both our North American and also global perspective. This will be from three important perspectives:

* What will Customers Be Like
* What Will Fleet Composition Be Like
* How Will Premium Automakers Exercise our Responsibilities as a part of the total industry

Let’s first examine the current economic and cultural landscape and how it’s affected our

customers. The global economic slump has changed the way consumers view and

purchase all premium products, from luxury watches to expensive homes. It has had a

profound effect on the auto industry as well.

If nothing else, the recession is amazingly stubborn …we’ve all heard it described as the

worst economic downturn since The Great Depression. The economic hardships have

been real. The continuing effects and news of it has taken a psychological toll on everyone.

And so now everyone wonders: what will the consumer marketplace be like once we do eventually see a return to “Better Times.” There seem to be two schools of thought.

The first says: Affluent consumers will return to their old habits. While they may have

slowed down, they remain wealthy and are keen to spend and enjoy their wealth. These consumers will be one of the engines of economic growth.

On the other hand, there are those who say: affluent consumers have changed and have reevaluated their goals. They will never go back to their free-spending ways.

What do we at BMW see? The short answer is: a somewhat complicated picture that falls

somewhere in the middle.

Yes, the global economic shock waves have left their mark on the consumer marketplace.

Right here in the U.S., we’ve seen a distinct change in consumer spending patterns.

One frequent recurring theme is: Some consumers feel they’ve spent too much, or borrowed too much, to fulfill material wants. Not only that, the amount of technological innovation has fueled a consumer appetite for increased consumption. Which eventually leads to stress and exhaustion from too much choice.

Another emerging and center-stage theme is that people will take much greater care with

major purchases. As a result they might buy less, but buy better quality. In a beautifully simple way they say, “I can’t afford to buy less than the best I can afford and I want something with true value….something that will last.”

We interpret this to mean there is and will continue to be an excellent market for premium automobiles, provided we reach affluent buyers who remain attracted to the value of finely engineered, beautifully designed and crafted vehicles that provide the enduring JOY of ownership.

The US premium market looks to show low double digit growth for this year as well as the

next two years. For the six –year period beyond that, we see good growth as well. So the premium market will continue to be a vital segment of automotive growth.

In our own world of BMW, the enduring value of our brand, even in depths of the recession

in markets around the world, continued to attract new owners and fans. Just last year in

China 90% of all customers were new to the brand with the addition of approximately

75,000 first-time BMW owners. Here in America, while our sales of new vehicles dropped like all other premium brands, we increased our sales of used BMW’s by 20%, and 50% of these buyers were new to the brand.

Across all markets the desire to experience “the Ultimate Driving Machine” is still an

emotionally compelling reason for purchase. We didn’t walk away from this in

the recession and it’s an enduring value that will continue into the future.

Today, the world is creating a new class of affluent consumers and in more markets than

ever before. New pockets of strong economic growth offer unprecedented marketing opportunities to premium and luxury goods manufacturers – looking at China again. Five years ago, there were about three million of what would be considered affluent consumers in China. In another five years, that number is expected to reach nearly 10 million – a majority of these today only being in the three main cities of Beijing, Shanghai and Guangzhou. So just wait until all these multi-million second tier cities start to catch up.

India is on a slower, but equally impressive, growth curve. In 15 years the number of its affluent

citizens will be equal to the entire population of Australia! (approx 22 million)

This startling growth is being replicated all over Asia. By 2015, China, India and the

other top-10 Asian markets will boast 70 million affluent households with discretionary

spending of more than 600 billion dollars!

Add that to the established bases of wealth in Western Europe and the United States and there’s incredible potential for premium brand companies.

Yes, affluent consumers have been affected by the recession and, as a result, they are

more careful consumers. However, brands that offer a compelling proposition of value in

all areas – price, service, quality, features, performance, and an enduring brand value will

do just fine.

So, affluent consumers will continue to be there for a quality driving experience with

lasting value. And what will they drive? What will the premium fleet look like in the future?

Increasingly, premium will be defined by the overall experience rather than the shape, size, method of propulsion, number of cylinders and yes, even price. This is already evident with other premium products today. Let’s take just one for an example.

(PULLS OUT AN I PHONE AND HOLDS IT UP)

Who doesn’t consider the iPhone a premium product?

Is it the price that makes it so? No.

Is it the brand? Yes.

Is it the number of features? No. Is it the size? No.

Is it the seamless and natural interface and integration of all these features? Yes.

Is it the look, feel, delight and, JOY that results when you use the product? Yes.

See a pattern here? And so it will be with premium automobiles.

In 10 years, premium automobiles will be desired for more than size and stature.

These bonds will be broken and discarded. Premium vehicles in a wider range of sizes

from large to very small will be desired for the emotional experience. They will be desired

not for how fast they go, but how they feel going whatever speed one wants to go.

At BMW we will continue to put a very large accent on performance. It’s our core DNA.

They will be desired not just for technology, because this element is increasingly

democratized, but rather the innovative way it’s applied, integrated and refined.

Not everyone can and will be able to do this.

It will no longer be about the number of cylinders…or cylinders at all perhaps…but rather

how what’s under the hood performs and how it provides a seamless driving experience filled with delight and JOY.

A minute ago, I said we believe the premium market will continue to grow around the

world in 10 years. However, we believe that its most significant growth will be in what

we may loosely call mid-size or smaller.

At BMW, we will not be selling cylinders. Former 12-cylinder performance already

comes from 8 cylinders. 8-cylinder performance comes from 6’s.

And 4’s could become 3’s! But if our customers want an 8, we should have one and will!

Regardless of the configuration, BMW will continue to be about performance and dynamics.

And we will create and develop more solutions than ever before to ensure sustainable

efficiency and environmental responsibility become brand strengths equal to superb

dynamics. And…this is important….all will still support the feel of the Ultimate Driving

Machine.

At last year’s Frankfurt Motor Show, we unveiled a new concept car called the Vision Efficient Dynamics, an example of our Efficient Dynamics philosophy built into all our products - which is the consistent reduction of consumption and emissions while preserving the performance our owners have come to expect from the “Ultimate Driving Machine”.

Those of you who know us, know we don’t do “flights of fancy” concept vehicles. Here are

a few performance specifications: It has the performance parameters of an M3, the

interior space of a 6 series and travels 0-62 in 4.8 seconds but generates fewer than

99 grams of CO2 per kilometer – roughly equivalent to 62 MPG. Here’s how it does it.

As a mild hybrid, a three-cylinder diesel mated to an electric motor and a dual clutch transmission drives the front wheels and an electric motor drives the rear wheels.

Right now we’re working on a number of new drive system concepts: internal

combustion 6-4- and 3 cylinder gasoline and diesel engines; innovative full electric powertrains;

hybrid-electric; and yes, hydrogen too. Any one that makes it from concept to reality

will have to merit being called a BMW.

Therefore, it is our belief that premium will increasingly be defined not by size in any

dimension but as a premium experience, and that experience will need to be an indelible

part of every brand that wants to call itself premium.

Will classic premium vehicles such as the 7 Series still have a bright future? I am convinced

they will! But will a successful premium manufacturer also have the credibility and license to have a 1 Series – or an even smaller family in the company fleet? Yes, as well. The “standard” however, will always be an instantly recognizable foundation. In short, I know we at BMW are ready to reinvent in every aspect of our business EXCEPT to reinvent what we stand for.

Now, to my last element. What are the responsibilities of the premium automotive business

in the challenging but exciting future?

First and foremost, premium automakers must continue to play a lead role in helping shape

the future of mobility. High-end brands traditionally have been the first to develop and

introduce new innovations that quickly filter down to the overall marketplace. The examples

are numerous:

* Fuel injection
* Antilock brakes
* Traction control
* Side impact airbags
* Electronic stability control
* Clean Diesel
* Automatic climate control
* Integrated infotainment

The list goes on.

You can be sure that we at BMW will not stray from this responsibility and we’ll continue to invest heavily in the years ahead. This important part of the industry will continue to bring innovation and technology to market to meet dramatically increased customer, social and regulatory needs…and to ultimately help contribute to a sustainable total auto industry when these innovations quickly migrate to the mass volume business.

This process will have its apex in the showroom. But it has its roots in all of our facilities.

One of the fundamental changes of the economic turmoil we have just gone through is

that success – individual or organizational - has been redefined. No longer is it merely the acquisition of more real estate on the Monopoly board of life or the achievement of corporate profit. The definition for both has been broadened to include who you are, how you behave, and what you stand for.

Premium brands, by virtue of their inherent capabilities to innovate, create, and develop

have both the challenge and opportunity to contribute more than ever. We know we have

the opportunity to re-imagine mobility and change an established infrastructure and mindset that’s been a hundred years in the making.

Governments around the world, in developed and developing countries, recognize it’s not

only the big volume players in a market contributing insight, perspective and experience

toward shaping tomorrow’s regulatory climate, but premium companies as well.

For example, here in the United States, we must congratulate the Administration for being proactive in asking for our thoughts on the direction of future regulations.

We are working overtime to develop more sustainable technology than

ever before. We are taking the future in our own hands on the road to leading the way to a greatly reduced-emission sustainable future.

Shareholders and investors expect us to remain attractive investments. Governments want

us to aid their sustainable direction. And customers want us to meet their dreams while continuing to provide the enduring values they expect from a premium brand vehicle.

This is a huge challenge. We have to do it within an increasingly complex web of global regulations – some of which are consistent from market to market, but many yet are not.

So what is the direction our segment of the industry will take in the coming years?

First, there will be an increased sustainability focus throughout the entire enterprise chain.

For example:

* At our Leipzig location, we have suppliers who have settled directly on the plant premises, which saves 10,000 tons of CO2 emissions from the transporting of parts.
* At the Landshut plant we have the first emission-free foundry
* And here in the States, our South Carolina facility was designed and built to utilize methane gas from an adjacent landfill to produce up to 70% of its energy needs.

Company-wide, BMW is in the midst of an initiative to reduce the consumption of water,

energy and other resources in our global production network. We will continue to make

these types of investments in our future.

Second, our influence into the future will go beyond just the product in ways that will be instrumental in sustainable mobility.

In light of increasing global urbanization, our own company has conducted studies over

the last 30 years on the transportation needs and infrastructure of so-called megacities

– urban areas with a population of more than 10 million people. We have worked closely

with governments in a number of these cities as they grew and became more densely

populated to help maintain the precious commodity of mobility.

Out of this work came the inspiration for our Mega City vehicle that will debut in 2013.

It’s intended to be a tailor-made solution for sustainable mobility in the world’s largest urban markets. The sketch we revealed a few weeks ago showed a vehicle that instantly suggests

a futuristic vision of premium, despite a silhouette that’s smaller than a 7, a 5 or even

a 1 series! Designed and built from the ground up around a battery electric-powered drive system, an all-aluminum frame will carry the suspension, battery and electric motor, and

will be surrounded with a carbon fiber body structure.

Proven in aerospace and racing, we strongly believe carbon is a viable large scale production material. Now we’re partnering with a leading carbon manufacturer, SGL Group, to produce carbon fiber in a new plant in Washington State, and produce material that will allow us to offer a lightweight but safe passenger compartment.

Even in the energy-intensive production of carbon fiber, we’re being mindful of sustainability

in the process. A moment ago I mentioned our intent to be sustainable wherever possible

in the production chain. 100% abundant hydroelectric power will be the source at this manufacturing plant. It will be the future responsibility of all of us in the industry to bring ideas like this to market.

Imagine how improbable this work would’ve sounded about BMW at the first CAR Seminar

45 years ago... The responsibility reflected in our products, our commitment to saving resources and active social responsibility are all linked to the success of the BMW Group

and are an integral part of our company philosophy.

In summary, the premium market has weathered the recession very well. Investment into

the future did not waver. Customers did not disappear. Opportunities to grow, prosper and continue to help develop a future of sustainable mobility are significant and many. And governments – now more than ever – recognize the contributions our part of the vital global auto industry can make in the future.

Before I wrap up, I’d like to thank the Center for Automotive Research for coordinating

this event. I respect the work you have done for 45 years. It truly is an “Automotive Woodstock”,

in that it succeeds in bringing people together from disparate backgrounds and far-flung locations for a common – albeit a much more serious -- purpose.

I look forward to taking your questions on my remarks and discussing these points further with

my fellow panel members in a few moments.

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