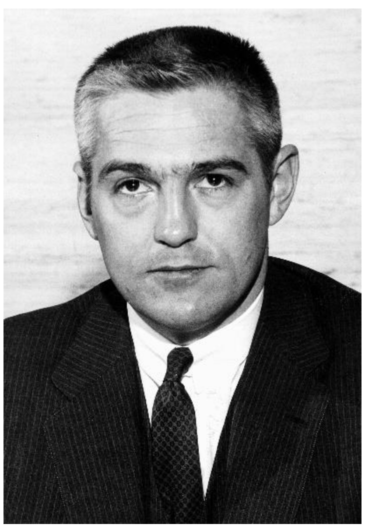
BMW NA 50th Anniversary | 50 Stories for 50 Years
Chapter 3: "Bob Lutz: The New BMW AG Board Member Shakes up the Worldwide Distribution System"

Written by: Jackie Jouret

Within the automotive industry, Bob Lutz is legendary as a Car Guy, an executive who prioritized exciting, fun-to-drive cars over those with mass-market appeal. During his brief tenure as BMW's board member for sales, Lutz fulfilled those expectations handily, fostering the creation of enthusiast-oriented cars like the 2002 turbo and 3.0 CSL, and by founding BMW Motorsport to put BMW back on the racetrack with a full-factory team.



In addition to being a car guy, the Swiss-born American is also a businessman, one who earned an MBA at the University of California-Berkeley while also flying jets with the US Marine Corps Reserve. Upon completing his service in 1964, Lutz took a job with Adam Opel AG, the General Motors subsidiary based in Germany. He spent eight years at Opel, and he'd advanced to its board of directors when he was recruited to the top sales job at BMW.

Lutz was just 39 years old when he was named BMW's board member for sales and marketing. When he took his post on January 1, 1972, he joined a board chaired by 42-year-old Eberhard von Kuenheim, with whom he'd work closely to modernize the company.

Shortly after his arrival in Munich, Lutz began examining the contracts between BMW and its distributors. “In Germany, we were distributing cars directly to dealers, but we still had private importers and distributors in every major European country,” Lutz said in 2015. “The big distributors like Thodorof in France and Luigi Sodi in Italy got a distributor price way below the German dealer price, and since many of them had their own retail operations they had another margin. I showed von Kuenheim the profit and loss statements of the six largest European distributors, and their profit on 35,000 cars was higher than BMW AG’s for selling 200,000 cars.” [Note: BMW produced 164,701 cars in 1971, and 182,858 cars in 1972.]

In the US, the situation was much the same with respect to the balance sheet. The legal situation was far different, however. It took less than a year for Lutz and von Kuenheim to replace Thodorof with BMW’s first wholly-owned sales subsidiary, BMW France SA, and barely another year to do the same in Belgium and Italy. Where European law favored manufacturers over dealers and distributors, US law reversed that relationship, a disadvantage that BMW had compounded with its own distribution contracts.

Despite a disastrous engagement with Max Hoffman in the 1950s—which had ended with BMW facing bankruptcy thanks in no small part to Hoffman’s failure to fulfill his ordering and payment contracts—BMW re-established its relationship with the Vienna-born distributor in 1962. By then, Hoffman had lost nearly all of his other franchises, and BMW's new sales chief, Paul Hahnemann, had thrown him a lifeline in the form of an arrangement that was mutually beneficial, in all likelihood.

Hahnemann was an effective salesman with a keen sense of product planning, but he was later revealed to be deeply corrupt. Upon taking over as BMW board chairman in 1970, von Kuenheim had ordered an internal audit that showed Hahnemann profiting personally—to the tune of at least one million dollars, and probably far more—by routing BMW's advertising and printing contracts through his mistress, and at vastly inflated prices to boot.

On October 28, 1971, Hahnemann was forced out of BMW. By then, he'd already renewed the original three-year contract with Hoffman, rewriting it in 1963 to run through 1970. He'd done so again in 1967, granting Hoffman sole US rights even though BMW had lost $6.75 million on its 1966 exports to this market. And then, in 1970, Hahnemann had awarded Hoffman a new contract that ran all the way to 1982. Worse, he'd stripped the contract of the typical provision stating that the franchise remained the property of the manufacturer and couldn't be transferred without prior consent.

At a 1972 board meeting, Lutz said such a contract was "highly unusual, to say the least." Even more ominously, he noted, "Unfortunately, and for reasons that are obscure, our former director of sales acceded to Hoffman's request to strike this provision of the contract. Export

Bob Lutz (right) visits the BMW Stand at the 2002 Detroit Auto Show and speaks with BMW Group Chairman Helmut Panke (2nd from left) and BMW NA CEO Tom Purvis (3rd from left).

manager Hermann Winkler objected; the contract was later modified to remove his objection. [It was] signed by Hahnemann over the protest of the legal department and Mr. Winkler."

It didn't take long for Hoffman to realize that Lutz wanted to replace the Hoffman Motors Corporation with a wholly-owned sales subsidiary, just as Mercedes, Volkswagen, and the other European marques had done in previous decades. Rather than acquiesce, Hoffman tried to enlist Lutz to carry on much as Hahnemann had done.

"Maxie offered me a substantial amount of money if I would stop trying to take the distributorship away from him," Lutz said in 2015. Imitating Hoffman's Viennese accent, Lutz recalled the distributor asking, "'How much money do you make? You're a nice young man. You're very smart. I want to see you do well. I don't think they're paying you enough.' I said, 'Believe me, Maxie, I'm very satisfied with my financial arrangements.' He said, 'Ah, but I could make you so rich! If you'd cooperate with me, I could make you so rich!' 'I don't want to hear it, Maxie.'"

Later, Hoffman told Lutz that he sold a lot of cars to Italian customers, with whom he was very friendly and who'd be angry if Lutz interfered with Hoffman's business. "I said, 'Maxie, come out and say it: If I keep trying to take the distributorship from you, you're going to have me rubbed out,'" Lutz said. "He said, 'No, no, it's only if there should be some unfortunate accident…' It was like a bad movie."

On April 5, 1972, BMW engaged a Washington, DC law firm, Galland Kharasch Calkins & Brown. One of the firm's partners, George Galland, was a BMW owner himself, having had two Bavarias and a 2002. All of his cars had needed warranty repairs and parts that Hoffman refused to authorize. “Mine was not a unique experience,” Galland noted. Indeed, Galland’s problems mirrored those that BMW’s own investigations had unearthed.

As such issues affected BMW's reputation in the US, the company tried to work with Hoffman to improve the situation. Needless to say, Hoffman resisted attempts to meddle with his business, even when it would have resulted in additional sales.

In 1971, with the 2002 in its fourth year of production, BMW had projected US sales opportunities of 40-50,000 cars per year; Hoffman sold 13,560. Two years later, BMW's US export manager Karl Gerlinger reported that Hoffman was still selling far fewer cars than the market likely demanded. Although BMW’s exports to this market had risen to 15,113 cars in 1972, they fell to 13,789 in 1973 even though the 2002 was more popular than ever and car sales overall were increasing in the US. With so few cars coming in, customers faced long waits to get 2002s, and they couldn't get a 1602 (as the 1600-2 had been renamed in 1971) as a stopgap since Hoffman had ceased to import the lower-powered model. He’d also declined to import the hatchback Touring, disliking its looks and being reluctant to carry the additional spare parts that another model would have required. Hoffman had long had an aversion to stocking spare parts, and in February 1974 he tried to convince BMW to take over this part of the business. When Lutz agreed to make a formal offer, Hoffman backed out.

That spring, as Lutz attempted to help Hoffman streamline his ordering and distribution process, Hoffman refused an allotment of cars, then agreed to accept the vehicles following a private meeting with von Kuenheim in New York. Two days later, he reneged, this time threatening to cancel his allotments for June and July 1974.

At the home plant in Munich, Hoffman's erratic ordering "left employees not just disappointed but bitter, leading to layoffs, part-time work, and insecurity for the workers," according to BMW works council representative Kurt Golda, who reported the situation to majority shareholder Herbert Quandt.

Quandt advised von Kuenheim to resolve "the burdens that now arise from the contract with Hoffman."

On July 9, 1974 BMW issued a notice of termination of its agreement with Hoffman, citing "serious commercial reasons." Hoffman would not go quietly, however, and it would take nearly a year before BMW of North America took over US operations from its longtime distributor.

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