

BMW NA 50th Anniversary | 50 Stories for 50 Years

Chapter 13: “Rebuilding the brand after the Yuppies”

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Every manufacturer wants its cars to be popular, but popularity brings risks. The “it car” of today can be the “not it” car of tomorrow, especially if it becomes popular among customers chasing what’s fashionable rather than what’s inherently valuable.

In the mid-1980s, BMW became the “it car” among a newly-identified demographic: the Young Urban Professionals known as Yuppies, a term first recorded in 1980 by Dan Rottenberg in Chicago magazine. Unlike the linguistically-related Hippies and Yippies, Yuppies embraced consumer capitalism, and they sought out products that would reflect and enhance their upwardly-mobile status.

Where cars were concerned, Yuppies went all in for BMW, a brand that combined European sophistication with the youthful dynamism that brands like Mercedes and Volvo lacked. Yuppie demand for BMWs helped sales increase steadily, from 37,017 in 1980 to



96,759 in 1986, as the stock market soared and every broker in New York wanted a 3 or 5 Series to signify his success.

“I was a Wall Street hotshot, moving paper assets from one side of the street to the other,” said Jeff d’Avanzo, who’d shared a 2002 with friends while in college. “In the fall of 1987, I visited Competition Motors, a BMW dealership in Smithtown, New York. I dropped a few tidbits about the financial markets and coaxed a test drive of an E28 535i out of a skeptical salesman, who thought me too young to afford the \$36,000 or so sticker price. He was correct, but I had an image to uphold! A month later, the financial markets crashed, and I was out of work within a week.”

According to the Federal Reserve, the Dow Jones Industrial average had gained 44 percent in the first seven months of 1987. The stock market was beginning to look overheated when a series of news reports undermined investor confidence and sent stock prices falling on October 14. On “Black Monday,” October 19, stocks crashed at the opening bell, losing 22.6 percent before trading was halted.

The Yuppie era was over, and with it went a large portion of BMW’s customer base—and BMW’s favorable image.



“We called it the Yuppie Hangover,” said Tom McGurn, then BMW of North America’s General Manager for Corporate Communications. “The Yuppie association was good in the beginning, but then it switched to being a symbol for greed and entitlement.”

Indeed, BMW’s image as a “Yuppiemobile” had harmed its reputation among those who’d discovered the brand years earlier via the 2002 or E9 coupe, and who considered themselves connoisseurs of fine automobiles

rather than status seekers. Moreover, those enthusiasts felt abandoned by BMW itself, as the company struggled with tightening safety and emissions standards that burdened its cars with ungainly bumpers and restrictive exhaust systems. To take just one example, the E21 320i arrived in 1977 making significantly less power—110 horsepower and 112 pound-feet—than the outgoing 2002 tii, which had delivered 130 horsepower and 130 pound feet from the same 2.0-liter M10 four-cylinder engine. And to many enthusiasts, the E21's handling was worse than that of the 2002.

“I was a big BMW fan, and I'd joined the BMW Car Club of America in 1978, but I didn't own a BMW in the '80s because I was so discouraged by what happened to the brand,” said Rich Brekus, who'd join BMW of North America in 1994. “The



cars were no fun, and true BMW fans were looking for something else, like the Audi Quattro and the Saab Turbo.”

Throughout the 1980s, the BMWs sold in the US made significantly less power than their European counterparts with the same engines. “The perception was that we were not getting the best BMWs in the US, and that led to the grey market situation,” McGurn said.

The so-called “grey market” constituted private imports of cars offered in Europe but not the US. That included cars like the M635CSi, which delivered 286 horsepower where the US-spec 635CSi put out just 182 horsepower, or the six-cylinder 323i, which delivered 150 horsepower versus the 101 horsepower available from the four-cylinder 318i sold by

BMW in the US. Such cars were wildly expensive, but they were worth the trouble and expense to enthusiasts who wanted high-performance BMWs. In 1987, BMW of North America finally countered with a US-spec M6, but even that car fell shy of its European counterpart where horsepower was concerned. Moreover, it was nearly as expensive as a grey market import, as were the US-spec M3 and M5 that arrived in 1988.

In the midst of those challenges, BMW was forced to reckon with affordably-priced Japanese imports from Lexus and Infiniti, which took direct aim at BMW upon their arrival in 1989. That year, BMW of North America's sales fell to 64,881 automobiles, followed by 63,646 cars in 1990 and just 53,343 in 1991.

Rebuilding the BMW brand in North America would take more than shedding the burdensome Yuppie image. It would take a renewed commitment to the U.S. market, headed by a strong product initiative—i.e. more performance-oriented



cars, with more attractive prices and features that American customers demanded, like cupholders and effective air conditioning.

“Our air conditioning was terrible,” said Carl Flesher, who worked in product planning and marketing during that era. “In Munich, the reaction was, ‘We know about you Americans. You just want to hang meat inside the car.’ I invited two engineers to Kansas City in August, put them in a 5 Series, and had them drive to Houston. When they got there, they called me up and said, ‘Mr. Flesher, we got the message.’ And when we introduced the E32 7 Series, I announced at a dealer meeting that the air

conditioning was better than the Cadillac or the Lincoln. That place erupted! I can still see [BMW AG CEO] Mr. von Kuenheim sitting in that chair, looking so surprised.”

In August 1989, BMW NA CEO Günther Kramer retired after four years of performing what McGurn called “superhuman duty.” A lawyer by profession, the 60-year-old Kramer had commuted on the Concorde twice weekly to attend to his roles in Montvale and Munich, where he held a seat on the BMW Board of Management with responsibility for export sales while also serving as head of BMW NA. McGurn said he’d worked closely with BMW in Munich to improve features that were important to American customers, and to reduce the turnaround time when technical problems arose. “He could go right to the source, and get solutions going,” McGurn said. “I think that was Günther’s greatest contribution.” Kramer was replaced as president and CEO by Karl Gerlinger, 50, a 26-year BMW veteran who had most recently been sales manager for West Germany and Central Europe. He’d also worked in BMW’s export division during the Hoffman era, and he understood the US market well, including its sensitivity to price.



“After I became VP of marketing, I convinced the new president [Gerlinger, who arrived in 1989] that we needed to reduce the price of the 7 Series,” said Flesher. “Then we offered any 7 Series owner \$2,000 toward the purchase of a new car. That took off like

a rocket, and sales went straight up to where they’d been.”

For the 1990 model year, BMW reduced the price of its 735i sedan from

\$54,000 to \$49,000, and that of the 535i from \$43,500 to \$41,500.

Lower prices made the existing lineup more competitive, but they didn't necessarily make the cars more attractive to customers seeking true BMW performance. The 535i and 735i were powered by the decades-old M30 six with just 208 horsepower, and the V12-powered 750iL wasn't an ideal solution in the US market. "The BMW board of management wanted to come out with a superior engine to anything Mercedes had, and Mercedes had V8s at the time," said Flesher. "Hence the birth of the V12. That was supposed to be our answer to the V8. Of course, in America no one knows anything about V12s, which sound complex, like...do I really need all that? It changed the driving dynamic of the car, too. The front of the car got very heavy, and you could feel it."

By 1991, the tide had begun to turn. The new E34 M5 brought power and performance to the midsize sedan class, albeit at a very steep price, and the new 850i gave BMW a flagship coupe, albeit one with a V12 engine and an even steeper price.

Later that year, BMW NA's top leadership underwent a shift. Flesher moved on to other responsibilities, replaced primarily by Vic Doolan, who came to BMW NA from BMW Canada with a mission to restore BMW's image as a maker of Ultimate Driving Machines. By 1992, Doolan had been elevated to the role of president, with Gerlinger as CEO until 1993, when he returned to Munich in favor of Dr. Helmut Panke. Panke was himself replaced two years later by Dr. Heinrich Heitmann; both men left BMW NA to take seats on the BMW Board of Management.

Where BMW of North America was concerned, Doolan came at an ideal time. "Vic was probably the strongest product advocate among anyone in senior management," McGurn said.

Doolan initiated a thorough overhaul of BMW's product lineup and operations, which he called the Champion Strategy. "We said, 'We've got

to be BMW. First and foremost, we've got to have performance,'" Doolan said. "At the time, one of our best sellers was a four-cylinder 318i automatic—the first of the new E36 generation 3 Series—an awful motorcar. I asked Munich if we could have a full six-cylinder range, and they agreed. We priced it just above the four-cylinder, and that gave us the intrinsic value that matched our image as the Ultimate Driving Machine."

The Champion Strategy also included a renewed emphasis on customer service. Four years of free maintenance began to be included with the purchase of a new automobile, helping BMW shed its "Break My Wallet" reputation. The establishment of BMW Financial Services made leasing more affordable, and used BMWs [Certified Pre-Owned] more attractive. "We were constantly working on the value aspect," Doolan said. "Although our retail price was higher than the Japanese, the ultimate value and cost of owning the car was comparable."

In 1994, BMW of North America could finally deliver the V8 engines that Americans preferred, in the 3.0-liter 530i sedan and wagon and the 4.0-liter 540i sedan. An all-new V8-powered 7 Series would follow in 1995.

By then, Doolan had a new head of product planning, Rich Brekus, who'd done the job at Ford before moving to a consulting company. "Bringing performance back to the brand was really my mission," Brekus said. "That's what BMW is all about."

As the '90s progressed, Doolan and Brekus worked together to improve BMW's product offerings, while a new marketing director, Jim McDowell, collaborated with the Fallon ad agency on innovative and often humorous ways to sell them. The lineup grew to include a retro-style roadster, the Z3, and BMW's first Sport Activity Vehicle, the X5.

The Z3 and X5 would be built in Spartanburg, South Carolina, BMW's first all-new manufacturing facility outside Germany. (The plant at Rosslyn, South Africa had been purchased from Praetors Monteerders, which had

begun assembling BMW-Glas models in 1968.) A \$400 million initial investment emphasized BMW's commitment to the world's largest auto market, as well as its commitment to building the kind of cars Americans preferred. Meanwhile, exports from Spartanburg would cushion BMW from currency fluctuations.

Thanks to those measures, BMW of North America's sales had begun to improve. In 1992, BMW NA sold 65,683 cars, and by 1995 sales reached 93,309 units, just 450 shy of the earlier peak they'd hit in 1986, at the height of the Yuppie phenomenon.

Having seen the Yuppies come and go, BMW of North America had opted to pursue performance over faddish appeal, and in 1996 the company's sales exceeded 100,000 cars for the first time. As the 20th century rolled into the 21st, BMW had firmly restored its reputation as The Ultimate Driving Machine.



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