BMW NA 50th Anniversary | 50 Stories for 50 Years

Chapter 15: "A Capital Investment: BMW Financial Services Stokes Growth"

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To succeed, a business needs access to capital. It needs to purchase raw materials, invest in production facilities, and pay those who design, build, and sell its products. Once those products have been created, however, it's the customer who needs access to capital, especially when the products in question are big-ticket items like premium automobiles that few purchase with cash.

Customers can certainly obtain auto loans from banks and other financial institutions, but it's advantageous to the manufacturer to offer that credit directly. If the customer can obtain the funds needed to buy or lease a new car through the manufacturer's "captive finance" arm, the manufacturer can realize a profit not only on the sale of the vehicle but on the servicing of the loan with which it was purchased, and again when the vehicle is traded in on another new vehicle.

General Motors realized the value of captive finance more than a century ago, establishing General Motors Acceptance Corp. in 1919. Other companies followed suit, and by the 1960s all three domestic auto companies had their own captive finance companies. Then, in the early 1980's, when Toyota began to grow market share in the USA, it was the first of the Japanese manufacturers to create captive finance arms.

Since cars and motorcycles were secondary to airplane engines in

BMW's prewar business model, BMW had little need for a captive finance arm until it abandoned military contracting after World War II. Even then, however, the company's tenuous finances prevented it from offering credit to customers until 1971, when BMW Kreditbank began offering loans in Germany. In the US, the process would take considerably longer, first requiring the replacement of independent distributor Hoffman Motors in 1975 by the BMW of North America wholly owned sales subsidiary. Even then, it took BMW NA another decade and a half to reach the sales volume needed to warrant the establishment of a captive finance arm.

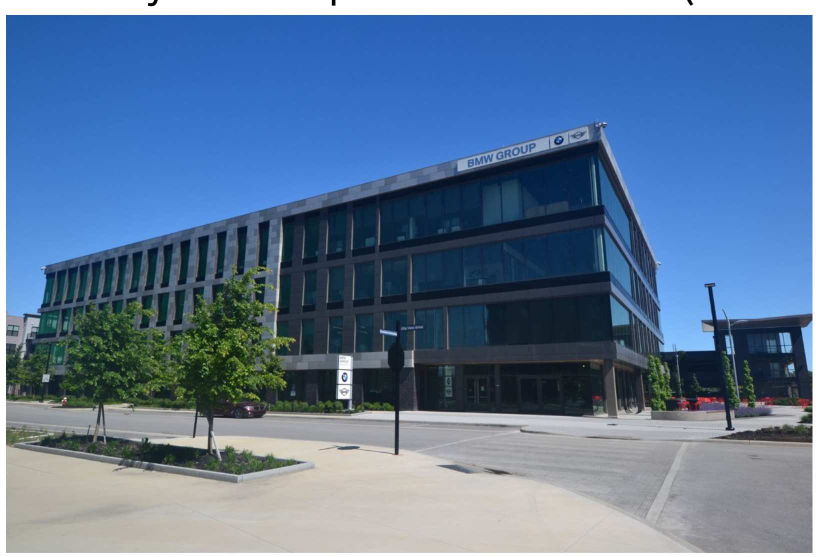
In the late 1980's, BMW suffered a two-pronged crisis that resulted in a severe drop in US sales from a high of 96,759 in 1986 to just 53,343 units in 1991. First, the yuppy phenomenon that had boosted BMW sales in the early 1980's, came to an abrupt end as the yuppies moved onto the next big thing and then BMW (as well as the established German brands) were faced with new luxury competitor brands from Japan.

By the time the Lexus brand was launched at the North American International Auto Show in January 1989, Toyota Motor Credit had almost a decade of retail financing experience to pass onto Lexus Financial Services. Regaining BMW's lost sales volume would take more than just better products at lower prices. It would require a new way of doing business. In 1992, BMW Financial Services began offering exactly that, exchanging a program that operated through GE Capital in favor of captive finance.

Federal and state regulations required BMW Financial Services to be incorporated as a separate entity from BMW of North America. Though both firms would be headquartered in Woodcliff Lake, New

Jersey, Financial Services' daily operations would be conducted in Hilliard, Ohio, near Columbus. Columbus was the home of Financial Services' first president, Kevin Westfall, who'd come to BMW from Chrysler Credit in 1990 and tied Financial Services in with Columbus-based Banc One (now part of JP Morgan Chase). "Ohio made sense for the workforce," said Neal Crouch, who joined BMW Financial Services in 1994 and currently serves as the division's chief risk officer. "There are multiple colleges nearby, there's a young workforce, and it's very affordable where cost of living is concerned."

The division was being built from scratch, hiring an all-new workforce and creating new operational structures in an increasingly digital era. "We pretty much needed to build everything," said Charles Silva, who served as BMW Financial Services' information technology manager from 1992 to 1995. "The sales company had a lot of existing systems, but as a regulated entity, we needed to be a completely separate company. We could purchase some commercial, off-the-shelf software that could serve for a limited period of time, but the rest we had to code from scratch." Crouch and Silva both cite the early leadership of John Christman (first as chief financial officer and then as CEO) and Robert Devine (as VP of operations and managing director) for the early success of Financial Services. "Both did a lot to get us up and running, to gain the dealers' trust," Crouch said.



Once up and running, BMW Financial Services began offering the new-car financing and leasing options that were customary in the captive-finance industry. In typical BMW fashion, the division didn't follow the existing models entirely but innovated within them to increase sales as well as profits.

“We were industry-leading on the end-of-lease process, with a program called Full Circle,” Crouch said. “If we could bring down losses on the sale of used cars, it benefits both the sales company and Financial Services.” Toward that end, BMW was the first manufacturer to offer a Certified Pre-Owned program that would allow dealers to offer the best-maintained used cars at a premium price. The customer, in turn, would be able to buy a used BMW in better condition and with the peace of mind of a comprehensive factory backed extended warranty. As the Full Circle name implies, the program also helped BMW’s cars retain their residual value, allowing for lower lease rates when the cars were new and helping BMW increase sales overall from the dark days of 1991.

“BMW Financial Services was an integral part of the sales rebound,” said Tom McGurn, then BMW of North America’s general manager for corporate communications.

“We brought two key factors,” Silva said. “One, getting financing for customers, so they’re not exploring it with other banks but keeping it within our ecosystem. Two, creating loyalty. Now the customer is in our portfolio, and we can enable more leasing. When they have a return-to-market event in three years, we have an opportunity to move them up the product chain. If they’re a 3 Series customer, maybe their life events allow them to go into a 5 Series. It’s a loyalty driver for the group.”
Crouch concurred. “A lease is on the books for three years, and we have tools to help dealers manage that off-coming volume. It’s like an annuity that always brings customers back. The dealers see us as helping with the sales side, too.”

Indeed, Financial Services plays a crucial role in that regard, and not only by providing the capital customers need to buy cars. The division also offers financing to dealers, helping them floorplan (purchase) new and used vehicle inventory or mortgages for their facilities.

All of those products allowed BMW Financial Services to play a major role in BMW's recovery from the challenges of the early 1990s. And in 2008 and 2009, the flexibility provided by Financial Services helped BMW weather another challenge when a mortgage-finance crisis in the U.S. shook the global economy. While some domestic automakers stood on the precipice of bankruptcy, BMW Financial Services kept business moving for BMW.

"What we were losing on residuals was very large every month," Crouch said. "Financial Services and sales were sharing some of these losses, and we had to shore up the balance sheet. For the dealers, Financial Services wanted to make sure we had liquidity for what they wanted to do, for their floor plans, and to finance leases and loans when a lot of banks weren't providing auto loans."

As a result, BMW outperformed the industry as a whole from 2007 to 2009. BMW of North America's sales fell by 32 percent during that period even as the US auto market as a whole fell by 54 percent, and when both Chrysler and General Motors required federal bailouts to survive.

Even without major disruptions, the automotive industry requires constant adaptation to shifting tastes as well as a changing economy. As the 21st century rolled on, Silva said, "We saw deteriorating realized market values for our used cars, we were spending more on incentives, and maybe our product portfolio in the U.S. market didn't exactly match what consumers were demanding. Even our relationship with the dealer network: How do we ensure that they are our partners and not our adversaries?"

To reach its goals, Silva said, BMW implemented Strategy 2017, developed under BMW NA CEO Bernhard Kuhnt and BMW Financial Services CEO Ian Smith to foster a closer collaboration between its captive-finance arm and its sales operation. “I think it was a critical turning point for the success we’re now realizing in the U.S. on a group level. The two companies are working much more closely together while still maintaining the legal separation we need. It’s helped us to go to market in a way that no other OEM-captive relationship has been able to achieve, and that’s what powered us through some of these challenging times.” That includes the Covid pandemic of 2020, through which BMW Financial Services kept business moving once again, as did its counterpart MINI Financial Services, established in 2001.

Today, BMW Financial Services is led by Birgit Boehm and operates not only in the U.S. but in Canada, Mexico, and Brazil. It’s a crucial component of BMW’s profitability, employing more than 1,000 people and servicing more than $45 billion in assets for 1,300,000 customers in the U.S. alone. Some of those customers are new to the brand, attracted by loan programs aimed at customers like recent college graduates and members of the military who might not have established the credit they need to get loans elsewhere. Such programs help BMW Financial Services ensure customer loyalty to BMW as a whole—as does the division’s commitment to BMW’s success.

“When catastrophic events like Hurricane Helene happen, or just on the weekends, our teams jump in to make sure that we’re booking and approving credit, and doing everything we can to make sure our customers can get into the car, our dealers can sell the car, and we can get that car across the curb,” Crouch said.

And once the car is delivered, Financial Services constitutes a crucial point of contact for customers during the life of their lease or loan. To customers, Financial Services is BMW, and Crouch says they’re in good hands with his division. “Our employees care about the calls that come in, and they have a lot of empathy for our customers.”

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