

Speech by
Stefan Krause
Member of the Board of BMW AG, Finance
Europe Asia Young Leaders Forum
11 September 2004
The St. Regis, Beijing, Great Hall Ballroom
Session 3, from 2:30 pm to 4:30 pm

BUILDING TRUST IN GLOBAL MARKETS

Ladies and Gentlemen,

The topic of my speech is trust building.

To build trust we need to communicate and for that we use basically languages.

So as a trust building measure with you all here in Beijing, I will now try to introduce myself in an appropriate manner.

(Part in Chinese)

I hope that you forgive the mistakes I made just as an old Chinese proverb says: "I do not fear heaven nor earth.

Yet what I fear are foreigners who try to speak Chinese."

Ladies and Gentlemen,

"Trust" is not just the topic of my speech today.

It has also been the underlying theme of our whole conference.

And I think, for young business leaders it definitely is a topic worth dealing with, because trust is the foundation underlying any explicit interactions between human beings.

What makes "building trust" a challenging topic is that it mostly happens on the side.

It is the implicit, the unexpressed, unspoken thing.

If you would like to befriend someone, win him over, gain his trust, the last thing you would probably do is involve him in a conversation on why you are a trustworthy person.

That's not how it works.

Instead, this strategy rather leads to the other person becoming suspicious of your motives.

This is not only true for private matters.

It also matters in business, in fact it matters a great deal.

When companies seek to establish a working relationship with a partner or if they want to enter a new market, what they focus on are the so-called "hard issues" like business plans, contracting and results.

While doing so, they expect the "soft issues" to come along.

A reason for that behavior might be, that people, more so finance people – I guess I had to say that – feel more comfortable to deal with everything that's quantifiable.

And soft issues tend not to be quantifiable, especially soft issues like "trust", which have somewhat of an abstract dimension.

Yet exactly for that reason soft issues actually are the hardest issues!

For gaining trust you have to convince through your business performance and through your actions.

And with that, you have to be very consistent, because: once lost, rebuilding trust is a long and hard road!

Some big players (like Shell, Exxon or Bayer) might tell you a story about that.

Thus, in our global economy where people of different social and cultural backgrounds, people of different values meet in the conference rooms and lounges all over the globe to forge international alliances and make business with each other, "building trust" is one of the key issues for mutual success.

I guess that's common sense.

And this conference as a meeting of young international leaders and the purpose of the BMW Herbert Quandt Foundation are prime examples for the fact that we at the BMW Group do understand the importance of trust across cultures.

This leads me to the question: How?

How can a company achieve trust in global markets?

Let me try to answer this question by discerning different kinds of relationships a company has in a country or in a market.

From the view of the BMW Group I would distinguish between four dimensions of business relations:

1.) The first one is the relationship with our consumers.

With them we need to build trust via the products and services that

we offer.

Here the tool we use to build and develop trust is called brand-management.

The second relationship where the issue of trust plays an important role is the one with our employees in the diverse international markets, where we are present.

In this case we talk about "corporate culture" as a tool of trust building.

- 2.) The third relationship where trust is a key issue for us on an international level is to build trust with our business partners in a broad sense.

This not only includes our goods and service suppliers, but also our money suppliers like banks and the capital market and in particular our retail partners.

Usually, we call them our dealerships, but as a Colombian I do not like to talk about "dealers".

- 3.) The last relationship I want to touch, where trust is necessary, is the one with the public or the society as a whole, in which we are establishing our business.

1.) Gaining trust of consumers by building a strong brand

I would like to start my remarks with an area of "trust building" in which I can say – without bragging too much – that we have become excellent at. I mean the area of "brand building".

We own and have developed some of the strongest brands in the world – BMW, Rolls-Royce and MINI.

Here in China, for example, BMW is today the best-known brand – ahead of IBM and Coca Cola – as the latest survey by Fortune China recently documented.

Especially the (white) BMW 7 Series embodies the BMW brand on the Chinese market.

It stands for special luxury and has become the icon of the promising, successful reformer – the young Chinese business leader.

But what exactly is a brand? Why do people buy brands?

Brand, by definition, is a piece of mental real estate.

It is exactly this piece of brain in the consumer's mind that we occupy.

Beyond that a brand is a promise in which people trust.

It is a promise in certain product values and characteristics that is met consistently over and over again.

This kept promise creates trust and desire in consumers in return, so that they want to purchase the goods sold under the brand's name.

Concerning BMW this means that every BMW – no matter where it is built and delivered – has to embody the same characteristics:

- Emotion
- Uncompromising engineering
- Innovative technology and
- Supreme quality.

The BMW Group has acquired its unique profile for the very reason that we have focused on our strengths, on what we can do best – premium cars and motorcycles.

In this sense, we want to offer authentic products without compromise always, every time, and everywhere.

With all our brands – BMW, MINI and Rolls-Royce – we will offer one hundred percent solutions for clearly defined segments of customers rather than offering a little bit of everything for everybody.

Only in this way we can be successful and profitable in our business in the long run.

Brand identity, brand values, brand positioning are not regionally dependent.

Strong brands stand for the same, no matter where you meet them on the globe.

A brand is a promise to be fulfilled every time, everywhere.

There is just minimum space for regional or cultural adaptations restricted by the way we communicate brand values.

Here is an example:

The brand BMW stands in all markets worldwide for "Sheer driving pleasure".

Yet in the U.S. and Great Britain it is claimed to be "the ultimate driving machine".

This has nothing to do with a different brand positioning in different markets.

Instead, it is an attempt to better communicate in different markets what the brand stands for.

“The ultimate driving machine” mirrors the BMW brand values “dynamic” and “sportive”.

“Sheer driving pleasure” expresses the focus on “pleasure” as the brand’s core.

Finally, there are only a few brands in the world next to BMW that have yielded successful products consistently and continuously over decades.

We know what we stand for.

So our customers will also know what they can expect from us.

As you can see, we do know quite a lot on how to build trust in consumers’ minds.

We achieve this trust by a strong and consistent brand management.

Because, what a strong brand ultimately represents is a high level of trust.

2.) Gaining trust of employees – fostering a “Corporate culture”

In order to develop and foster a strong brand one also has to consistently take account of the brand profile inside the company in all processes and to stick to it in the long run in particular.

Each and every employee working for BMW lives and breathes the BMW core brand values.

The same is, of course, true for our other brands MINI and Rolls-Royce.

This brings me to the next relationship where trust is important – the relationship of a company to its employees.

The basis for this has to be generated by an adequate “corporate culture” that is valid worldwide.

I have to admit that we at the BMW Group do not have a fool proof recipe that I can offer you as advice on how to build and develop an international culture in an organization.

Honestly speaking, our corporate culture is after all better described as “a small Bavarian company that exports into the world” than as a truly international company.

That becomes evident when you look at the composition of our management, which shapes the inner basic beliefs of the organization.

In a recent discussion at the Board we agreed that it is a strength to be a company strongly founded in German cultural values and business behavior.

Because – as I can verify myself – the trust of our non German employees in our organization is based on our very German commitment to long term employment and human relationships.

Something like that you would probably not generally find in American organizations.

And in that context I can affirm that there is no other more sustainable business model than the large German family owned corporation like the BMW Group.

You cannot compromise when implementing a consistent corporate culture.

We had to learn that in 1994, when we took over the British car manufacturer Rover.

In this case, we failed to merge the different cultural management styles and the different corporate cultures of BMW – as a premium manufacturer – and of Rover – as a high-volume producer – into a new, single BMW corporate culture.

Ultimately, we had to discontinue our relationship with Rover.

By the time that we took over the long-established British brand MINI, we had applied a different approach.

From the outset, BMW-specific work structures and processes were implemented at the Oxford plant.

German managers contributed necessary expertise in automotive production, while British managers on site had the required sensitivity to the mentality of the British employees.

So, by communication and culturally aware management we could develop a common culture that is not a counterculture to either home culture.

To sum up, today, our worldwide consistent corporate culture, resting upon our German cultural roots, is a relevant trust building measure with our employees all over the world.

Like our strong brand management, it builds upon inherent strengths within our company.

So we don't compromise in this field and we seek to be very consistent all over the globe.

3.) Forming a trustful relationship with your business partners

The third trust-building assignment for a company in a foreign market – as I pointed out at the beginning – is to win the trust of its domestic and foreign business partners.

In contrast to the other two dimensions of relationships we still don't have a patent medicine for that one.

However, I would like to describe to you as a pure example in our own learning process our efforts in building trust among our local partners in the Chinese market.

I hope you will come to your own conclusions if our approach was appropriate.

We decided to enter the Chinese market after having identified a corresponding market potential for our products, i.e., for premium cars. When this was the case, we proceeded step by step, as we always do.

First, we carefully adapted our company name to the Chinese market. Because, more than in any other place, the Latin proverb applies to China: *Nomen est omen* ("It's all in the name").

With "Bao ma" we were able to establish a name for BMW in the Chinese market that has a positive association and means "precious horse."

In addition, there is still a remote relationship with the German original.

In 1994, we opened a representative office here in Beijing.

During the subsequent years, the BMW Group gradually expanded the scope of its operations in China, positioning itself as the leading supplier of premium automobiles.

As a next step, we decided to treat China not only as a retail market but also as a production site.

We believe that in markets in which you want to access great retail potentials in a long run you need to be present with production and as an employer as well.

We call this "production follows the market".

As required by Chinese legislation, we sought out a strong local partner for this purpose.

We looked for a partner that would be an ideal fit for us because it was pursuing the same compelling brand strategy.

We found this partner in Brilliance China Automotive Holdings Limited, which whom we established a joint venture for production and sales.

And in May this year we opened the jointly operated BMW Brilliance plant in Shenyang.

Thanks to this joint venture and our plant in Shenyang, we as the BMW Group, expect similar positive trends to the ones we saw in the U.S. market with our plant in Spartanburg.

Since 1992, the year we decided to build the plant in Spartanburg, our U.S. sales have more than quadrupled.

This comprehensive engagement also made clear to our Chinese partners that we pursued a long-term approach, which is a fundamental factor of building trust in a partnership – on the business side as well as privately. Precisely because we are a global player, our theme is: "All business is local."

Accordingly, we plan to expand our retail network to all Chinese provinces by the end of 2005.

After all, who would be more familiar with the special needs of local markets and better integrated into local networks than local salesmen?

4.) Gaining trust of the public and the whole society

Presence, production and service on site serve trust-building in us as a company, not just in the relationship with our Chinese costumers or with our partners, but also with Chinese society as a whole.

That's the fourth and final kind of relationship for trust building I would like to cover today.

When a company enters a foreign market, it has to be aware of cultural differences.

And it has to be clear that there is no right or wrong culture.

Cultures are merely different – and need to be seen in that perspective.

Yet these differences between cultures will have an impact on the way business is done and how successful it can be done.

In this regard, language barriers often represent only one, but generally the most visible (and audible) of many of challenges in cross cultural dealings.

Acceptance and understanding of the differences in cultural patterns and typical national characteristics are therefore prerequisites for a globally active company to find practicable solutions for the individual market.

In a nutshell: One's performance in a foreign market must be right and culturally fit.

Someone who wants to understand foreign cultures must first examine what constitutes one's own culture.

It is especially the history of a country that shapes the culture and the behavior of its people, including the behavior of managers and companies run by them.

I was lucky enough to grow up between two cultures.

So at the beginning of my career it was very interesting for me to experience how much time German managers and German employees spend on discussing the exact delimitation of their responsibilities and how freedom then meant being able to work and make decisions within these boundaries without outside interference.

It was also interesting to see how important these boundaries were in day-to-day life.

Neighbors would go to court and hold deep grudges if boundaries were not respected.

I could not really grasp why keeping boundaries was so extraordinary important in German culture until I learned that this was related to the history of many small states and principalities during the entire 19th century.

At that time, geographical boundaries were present in every day life through wars and fights.

This has left its severe impact until today in German culture as well as in German business culture.

Ladies and Gentlemen,

Corporations like the BMW Group are positioned in our global economy as “global players“.

But as I pointed out, they are also perceived as “local players” in virtually all the regions of the world that they are present.

Hence, acting as a local player is the best way for finally gaining trust of the society as a whole, in which we run our business.

And this always comprises the willingness to act as a “corporate citizen”.

Trust always comes with responsibility.

Companies take on responsibility when they become active in foreign markets.

To act as a corporate citizen entails:

- to provide value creation in the region.
- to create jobs on local levels
- and to transfer technology and process know-how.

The Shenyang area for example will be substantially enhanced by the presence of our plant.

We are already considered a beacon of progress, expected to attract more high-technology companies to the area.

And as employer, we offer our Chinese employees high-quality, innovative training opportunities.

So we have enough highly skilled locals among our – in the medium run – 3,000 employees in the joint venture to occupy positions on all levels of the company.

Hence, our company policy is always to fill as many management positions as possible with locals.

We believe that this is the most effective way to build trust through our local employees, because local managers are best suited to link our corporate culture and the local culture in an authentic way.

You see, in the different dimension of relationships the one to the public offers a company the widest range of regional and local adaptation.

Finally, any company that has decided to invest and employ locally is not a foreign company any longer.

It is being a fully integrated part of society.

This means in the case of the BMW Group: We are not just at home in our headquarters in Munich in Germany.

We are also at home here in China as well as in our other sites worldwide like the US, Great Britain, South Africa and others.

In all these places we are accepted as a “local player” – and as a “corporate citizen.”

Dear friends,

Building trust in global markets is a challenge and a responsibility for every corporation that acts globally.

That includes a trustful relationship with its

- consumer
- employees
- business partners
- and the public.

There are always different options for building trust in these relationships.

I have attempted to show you some possible strategies from the perspective of a global corporation.

The challenge is always to find the right balance between one's own cultural and corporate values on the one hand and the realities and cultural requirements in a regional market on the other hand.

Sometimes you have to focus more on your own values and sometimes more on the culture of a specific market.

As I pointed out, we at the BMW Group decided not to compromise in the field of brand management as well as concerning our corporate values.

But we try adapting as much as possible in regional markets where we are present.

Since values tend to be established top-down in a company, it is especially leaders, who need to take up the important, difficult task of implementing principles, ethics and values so that we can build or restore trust in markets.

In the end, the lesson is simple: trust pays off.

Thank you so much for your attention!

For the future I wish all of us successful business based on trustful relationships some of which have surely been built on this conference.