



JOHNSON
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Pricing Strategy for BMW i8



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BMW Must Focus on Niche Customer Segment with i8

BMW is launching high-performance electric vehicle BMW i8 in 2015

- BMW AG is €68.8 B premium German auto maker (BMW, Mini & RR)
- BMW i brand established in 2/2011 focuses on sustainability by producing low emission electric vehicles made out of carbon fibers
- i3 (\$35k, 150 HP, R: 160 m, TS: 100 mph & 94 mpg) launches in 2013
- i8 (350 HP, 0-60 mph: 4.6 sec, TS: 155 mph & 78 mpg) is halo product

High-performance electric vehicles aren't proven product category

- Auto industry dynamics are shifting in the US & abroad due to changes in government regulations & macroeconomic variables
- Competitive retaliation & consumer demand are unpredictable
- Commercial success of i8 is needed to increase BMW i brand equity
- BMW i needs volume to achieve atypical 8% margin for \$100k cars

How can BMW strategically position i8 to achieve commercial success for i brand?

Set base price for BMW i8 at \$125k & establish premium electric car status

- Understand industry dynamics to determine threatening forces
- Analyze pricing practices & build scale w/ i3 but focus on niche w/ i8
- Determine price range of BMW i8 using different methods of pricing (WTP, EVP, Product Line Pricing & Competitive Pricing)
- Use quantitative & qualitative analysis to recommend pricing strategy

Summary

Industry Analysis

Existing Practices

WTP

EVC

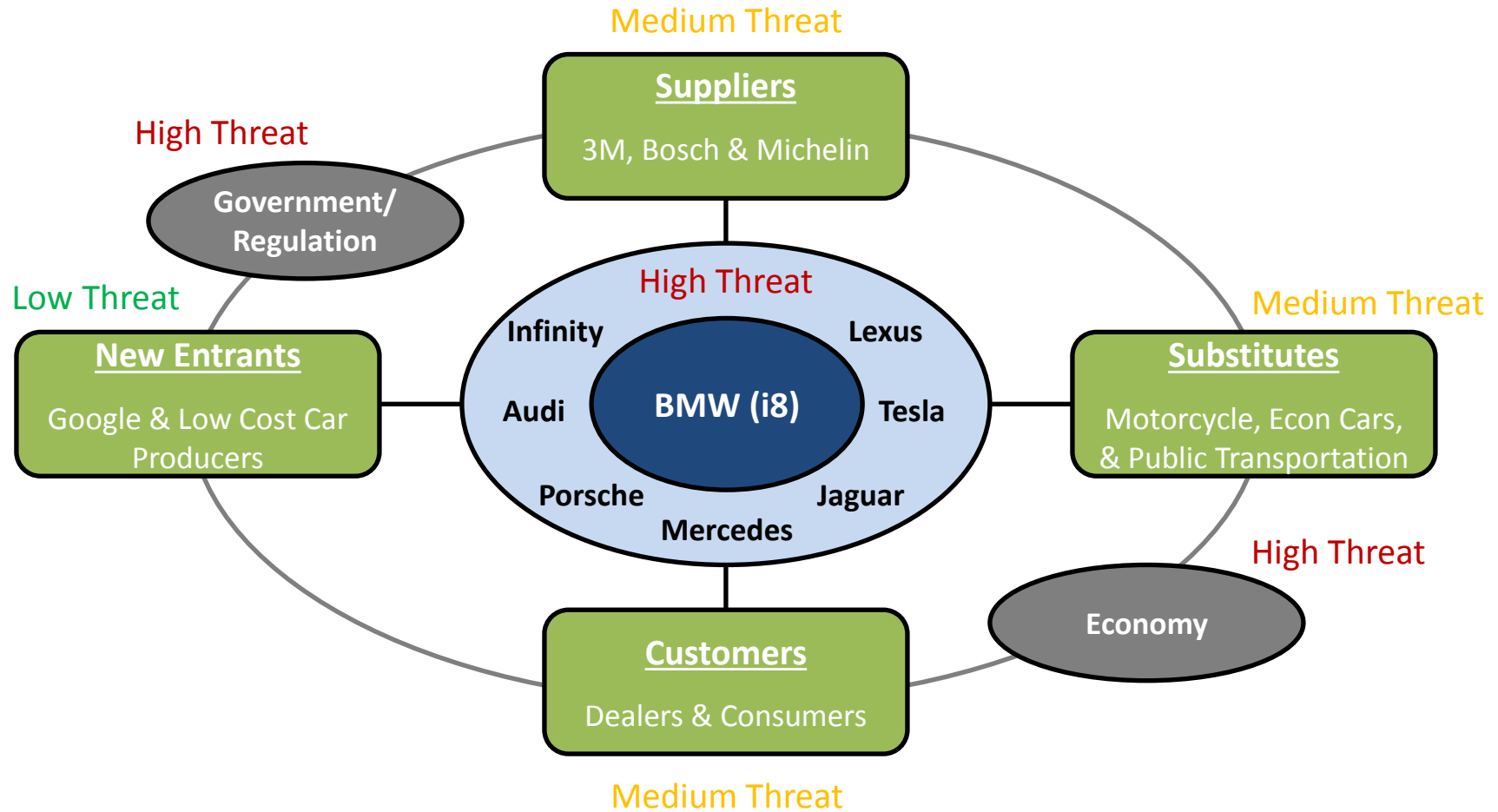
Product Line Pricing

Comp Pricing

Conclusion



BMW Must Differentiate w/ Premium Branding of Electric Cars



Highest threats come from rivalries, macroeconomic variables & government regulations, thus launching highly differentiated product can mitigate these risks

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Auto Makers Use Combination of Pricing Methodologies

Willingness-to-Pay (WTP)

- Auto makers gauge WTP by test drives and feedback

Value Pricing

- Better base models and services lead to higher prices

Product Line Pricing

- “Gaps” between major series (BMW 1, 3, 5, 6, 7 Series)

Competitive Pricing

- Cars in the same class have similar prices

Halo Pricing

- Expensive, high-performance dream cars attract attention

Product Life Cycle

- Price decreases in anticipation of new model update

Skimming

- Price reductions for non-current year models

Cost Pricing

- Not practical given the cost structure of business

BMW should price its new i8 according to competitors' prices, its own product line, WTP of target customers and the extra value of its services & features

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Survey Target Customers to Determine Accurate WTP

WTP Poll Posted on bimmerpost.com

- Only members can participate in polling
- Most members are car enthusiasts
- Many already own BMW & other performance vehicles

Survey Question

- “How much are you willing to pay for the base price of 2015 BMW i8?”
- Range of 8 different price categories were given (80-89k, 90-99k, 100-109k, 110-119k, 120-129k, 130-139k, 140-149k, >150k)

Data Collection

- Responses were collected over 5 day period
- Results were collected as soon as poll closed

Overview of Survey

of People Available for Determining Optimal Price (Respondents)

25

Total Number of Views on a Polling Thread

941

Survey Response Rate

2.66%

Responses: 80-89k = 8, 90-99k = 2, 100-109k = 2, 110-119k = 4, 120-129k = 3, 130-139k = 1, 140-149k = 0, Above 150k = 5

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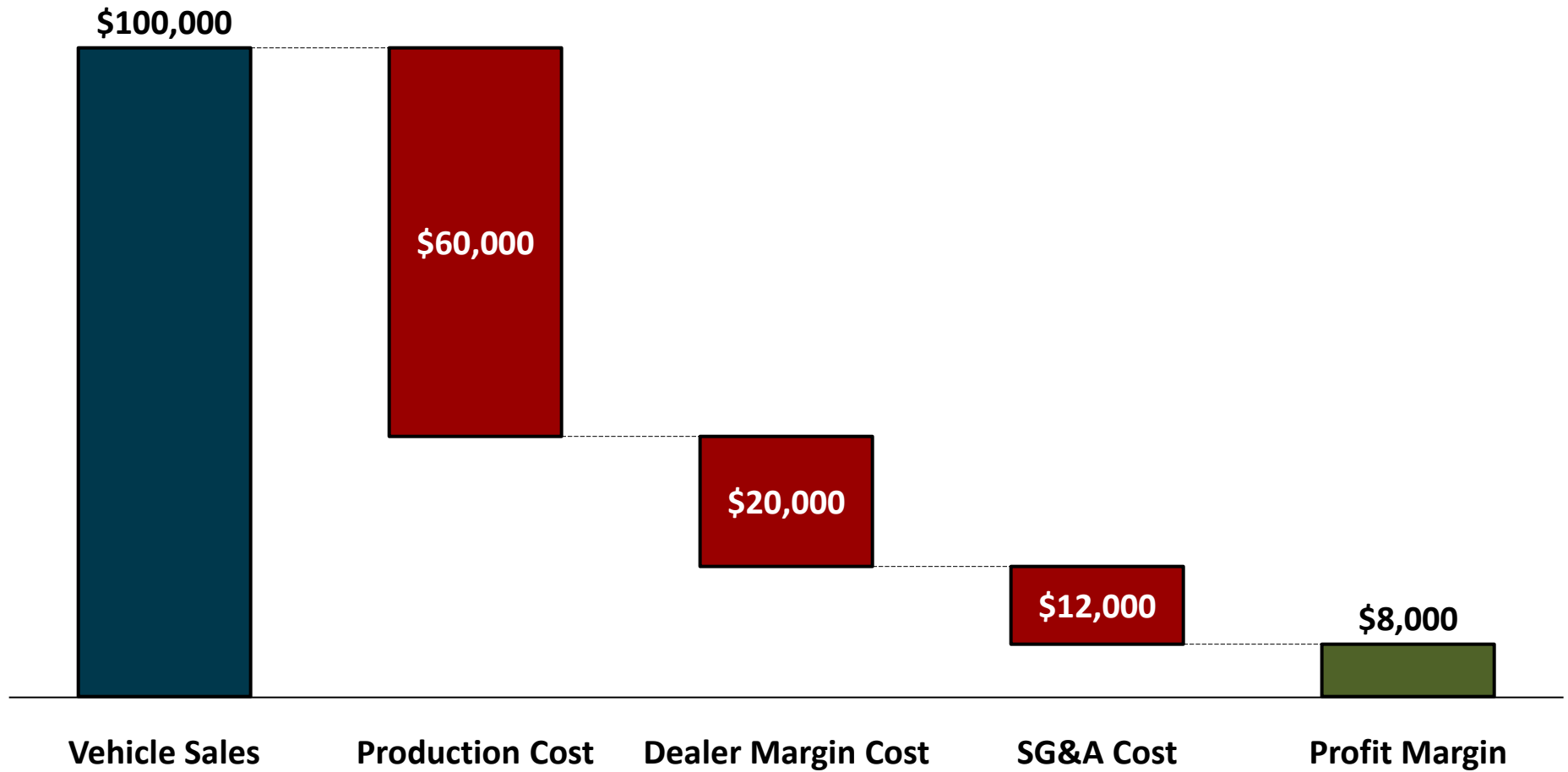
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Estimate Cost of Producing Typical 100k BMW Performance Car



Based on breakdown cost of producing each \$100K BMW & Tesla S priced at around that price range, BMW i8's total cost & profit per unit can be estimated

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Base Price of BMW i8 Solely Based on WTP Should be at \$155,000

BMW i8 Optimal Pricing Based on WTP

Base Price Range		Ave Base Price	WTP	% WTP	Optimal Price (wo/cost)	Adj OP (w/cost)	Optimistic OP (w/cost)	Pessimistic OP (w/cost)
\$80,000	\$89,999	\$84,999.50	8	0.32	\$2,124,987.50	\$(175,012.50)	\$(50,025.00)	\$(300,000.00)
\$90,000	\$99,999	\$94,999.50	2	0.08	\$1,614,991.50	\$50,991.50	\$135,983.00	\$(34,000.00)
\$100,000	\$109,999	\$104,999.50	2	0.08	\$1,574,992.50	\$194,992.50	\$269,985.00	\$120,000.00
\$110,000	\$119,999	\$114,999.50	4	0.16	\$1,494,993.50	\$298,993.50	\$363,987.00	\$234,000.00
\$120,000	\$129,999	\$124,999.50	3	0.12	\$1,124,995.50	\$296,995.50	\$341,991.00	\$252,000.00
\$130,000	\$139,999	\$134,999.50	1	0.04	\$809,997.00	\$257,997.00	\$287,994.00	\$228,000.00
\$140,000	\$149,999	\$144,999.50	0	0.00	\$724,997.50	\$264,997.50	\$289,995.00	\$240,000.00
Above \$150,000		\$155,000.00	5	0.20	\$775,000.00	\$315,000.00	\$340,000.00	\$290,005.00

Surprisingly high number of respondents was WTP above \$150,000 for BMW i8

\$155k is optimal BMW i8's price when the price range is averaged or lower end of price range is used, but \$199k is optimal for higher end of the price range

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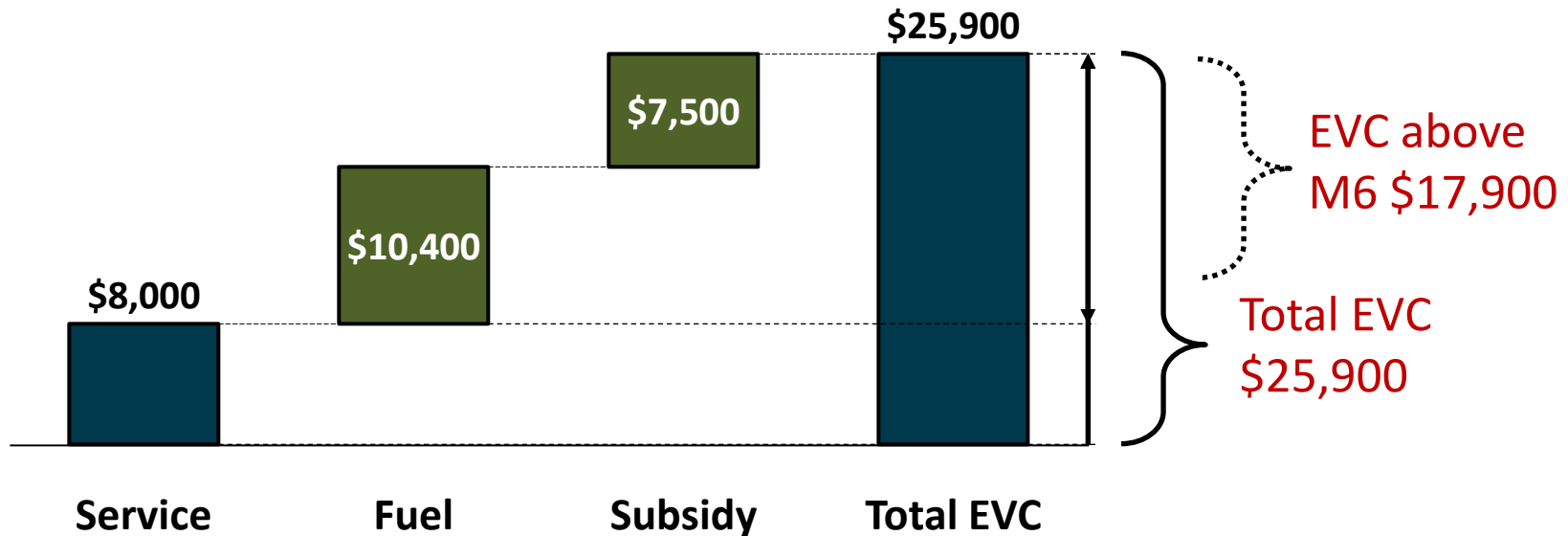
Conclusion



Total Economic Value Premium is >\$25,900 for i8 Over 4 Years

Key drivers in total Economic Value Calculation

- Value of maintenance
- Value of fuel savings
- Value of subsidy



High premium for the i8, relevant value must be considered

Quantitative analysis based on analyst reports and i8 expected specifications reveals a significant EVC, suggesting a price of \$130,800

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Product Line Pricing Suggests i8 Price of \$125,555

Product lines of BMW within Sedan/Coupe category

1	Price	3	Price	5	Price	6	Price	7	Price	M	Price
128i Coupe	\$31,200	328i Sedan	\$36,500	528i	\$47,500	640i Coupe	\$74,400	740i Sedan	\$ 73,300	M3 Coupe	\$ 60,100
135i Coupe	\$39,300	328iX Sedan	\$38,500	528iX Sedan	\$49,800	650i Coupe	\$85,500	740Li Sedan	\$ 77,300	M3 Convertible	\$ 68,750
135is Coupe	\$43,250	335i Sedan	\$42,800	535i Sedan	\$53,100	650iX Coupe	\$88,500	740LiX Sedan	\$ 80,300	M5 Sedan	\$ 89,900
128i Convertible	\$36,900	335iX Sedan	\$44,800	535iX Sedan	\$55,400	640i Gran Coupe	\$76,000	750i Sedan	\$ 86,300	M6 Convertible	\$113,100
135i Convertible	\$44,100	ActiveHybrid 3	\$49,300	550i Sedan	\$62,400	650i Gran Coupe	\$86,500	750iX Sedan	\$ 89,300	M6 Coupe	\$106,100
135is Convertible	\$47,950	328i Coupe	\$38,700	550iX Sedan	\$64,700	650iX Gran Coupe	\$89,500	750Li	\$ 90,000	X5 M*	\$ 88,850
		328iX Coupe	\$40,400	ActiveHybrid 5	\$61,100	640i Convertible	\$81,900	750LiX Sedan	\$ 93,000	X6 M*	\$ 92,900
		335i Coupe	\$45,100	535i Gran Turismo	\$58,000	650i Convertible	\$93,000	760Li Sedan	\$ 140,200		
		335is Coupe	\$52,100	535iX Gran Turismo	\$60,300	650iX Convertible	\$96,000	ActiveHybrid 7	\$ 84,000		
		335iX Coupe	\$46,800	550i Gran Turismo	\$67,500			ALPINA B7	\$ 122,600		
		328i Convertible	\$47,600	550iX Gran Turismo	\$69,800						
		335i Convertible	\$53,800								
		335is Convertible	\$60,800								
Gap	Highest	\$ 1,350		\$ 15,400		\$ 24,800		\$ 500		\$ 23,100	
	Lowest	\$ 5,300		\$ 11,000		\$ 26,900		\$ -1,100		\$ -13,200	

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I

II

III

IV

Ave premium among price groups: \$19,455

There are 4 different price groups within sedan/coupe product lines & average price premium is added to price of M6 coupes (both i8 & M6 perform similarly in 0-60 test)

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Horsepower, Size and Form Factor Largely Determine Car Price

Factors Examined

- Performance: **horsepower**, torque, engine type, performance tuning, turbo, AWD
- Look & luxury: **sedan vs. coupe**, **wheel base**, curb weight
- Sentimental value: **super car status**, **hybrid**

Competitive Pricing

Samples: Luxury performance cars

- BMW 1, 3, 5, 6 Series
- Audi A4, A5, A6, A7, S, R Series
- Mercedes-Benz C, E, CL, SL Class

Sample size: 52

Price range: \$28,000 - \$198,000

Linear regression

- Y-variable: Invoice price
- X-variables: Performance factors

Feature	Coefficient	P-Value	i8 Specs	Component Value
Intercept	(182,982)	0.00	1	(182,982)
Hybrid	(12,803)	0.06	1	(12,803)
Super Car	79,319	0.00	1	79,319
Coupe	5,500	0.17	1	5,500
Horsepower	137	0.00	349	47,734
Wheel Base	1,675	0.00	110	184,238
Est. Price				\$121,006

Using this method, i8 should be priced at \$121,000 in order to compete with other luxury performance cars that have similar power, size, style and super-car status

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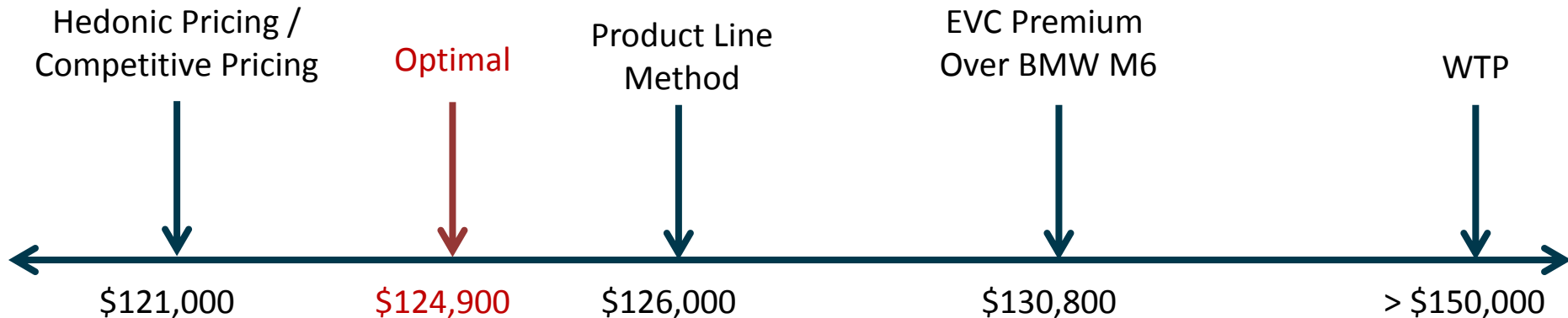
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Recommendation: Price at \$124,900 for the US Market

Estimates range from \$121k to >\$150k

- The i8 is an entirely new line and should command a premium
- Pricing based on performance is given more weight
- Must allow room for future i series vehicles and M series variations (i3, i9, Mi8, etc.)
- This is the base price recommendation but options allow BMW to capture higher WTP



The 3 methods largely agree and provide a range of \$121k to \$131k, thus the i8 should be priced at \$124,900 for strategic & future product line extensions

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Q & A



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BMW Product line pricing

Sedan/Coupe									
1	Price	3	Price	5	Price	6	Price	7	Price
128i Coupe	\$31,200	328i Sedan	\$36,500	528i	\$47,500	640i Coupe	\$74,400	740i Sedan	\$ 73,300
135i Coupe	\$39,300	328iX Sedan	\$38,500	528iX Sedan	\$49,800	650i Coupe	\$85,500	740Li Sedan	\$ 77,300
135is Coupe	\$43,250	335i Sedan	\$42,800	535i Sedan	\$53,100	650iX Coupe	\$88,500	740LiX Sedan	\$ 80,300
128i Convertible	\$36,900	335iX Sedan	\$44,800	535iX Sedan	\$55,400	640i Gran Coupe	\$76,000	750i Sedan	\$ 86,300
135i Convertible	\$44,100	ActiveHybrid 3	\$49,300	550i Sedan	\$62,400	650i Gran Coupe	\$86,500	750iX Sedan	\$ 89,300
135is Convertible	\$47,950	328i Coupe	\$38,700	550iX Sedan	\$64,700	650iX Gran Coupe	\$89,500	750Li	\$ 90,000
		328iX Coupe	\$40,400	ActiveHybrid 5	\$61,100	640i Convertible	\$81,900	750LiX Sedan	\$ 93,000
		335i Coupe	\$45,100	535i Gran Turismo	\$58,000	650i Convertible	\$93,000	760Li Sedan	\$ 140,200
		335is Coupe	\$52,100	535iX Gran Turismo	\$60,300	650iX Convertible	\$96,000	ActiveHybrid 7	\$ 84,000
		335iX Coupe	\$46,800	550i Gran Turismo	\$67,500			ALPINA B7	\$ 122,600
		328i Convertible	\$47,600	550iX Gran Turismo	\$69,800				
		335i Convertible	\$53,800						
		335is Convertible	\$60,800						

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Highest	\$47,950		\$49,300		\$64,700		\$89,500		\$90,000		\$113,100
Lowest	\$31,200		\$36,500		\$47,500		\$74,400		\$73,300		\$60,100
Gap	Highest	\$	1,350		\$15,400		\$24,800		\$500		\$23,100
	Lowest	\$	5,300		\$11,000		\$26,900		\$-1,100		\$-13,200

Sports Activity Vehicle							Roadster		
X1	Price	X3	Price	X5	Price	X6	Price	Z4	Price
X1 sDrive28i	\$30,650	X3 xDrive28i	\$38,500	X5X 35i	\$47,500	X6X 35i	\$59,800	Z4 sDrive 28i	\$ 47,350
X1 xDrive28i	\$32,250	X3 xDrive35i	\$43,600	X5X35i Premium	\$55,200	X6X 50i	\$ 70,400	Z4 sDrive 35i	\$ 55,150
X1 xDrive35i	\$38,450			X5X 35i Sport Activity	\$57,700			Z4 sDrive 35is	\$ 64,200
				X5X 35d	\$56,700				
				X5X 50i	\$64,200				

Highest	\$47,950		\$49,300		\$64,700		\$89,500		\$90,000
Lowest	\$31,200		\$36,500		\$47,500		\$74,400		\$73,300
Gap	Highest	\$	1,350		\$	15,400		\$	24,800
	Lowest	\$	5,300		\$	11,000		\$	26,900

	ActiveHybrid		
	3	5	7
ActiveHybrid	49,300	61100	84000
Gap		11,800	22,900

Avg. Price Premium	\$ 19,455
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NEW i8 Price	
M6+\$19,455 = \$	125,555



APPENDIX

Competitive Pricing - Price and Performance Data

Make	Product Line	Model	(US dollars)	(litres)	Cylinders	High	Turbo	Model Type	Halo	Body Type	(inch)	(hp)	(ft-lbs)
			Invoice Price	Engine		Perf					Wheel Base	Horsepower	Torque
BMW	1 Series	128i Coupe	28,705	3.0	6	-	-	-	-	-	104.7	230	200
BMW	1 Series	135i Coupe	36,155	3.0	6	-	1	-	-	-	104.7	300	300
BMW	1 Series	135is Coupe	39,790	3.0	6	-	1	-	-	-	104.7	320	317
BMW	1 Series	M1 Coupe	42,445	3.0	6	1	1	-	-	-	104.7	335	332
BMW	3 Series	328i Sedan	33,580	2.0	4	-	-	-	-	-	110.6	240	255
BMW	3 Series	328i Coupe	35,605	3.0	6	-	-	-	-	-	108.7	230	200
BMW	3 Series	335i Sedan	39,375	3.0	6	-	1	-	-	-	110.6	300	300
BMW	3 Series	335i Coupe	41,490	3.0	6	-	1	-	-	-	108.7	300	300
BMW	3 Series	ActiveHybrid 3	45,355	3.0	6	-	-	-	1	-	110.6	335	330
BMW	3 Series	335is Coupe	47,930	3.0	6	-	1	-	-	-	108.7	320	332
BMW	3 Series	M3 Coupe	55,290	4.0	8	1	1	-	-	-	108.7	414	295
BMW	5 Series	528i Sedan	43,700	2.0	4	-	-	-	-	-	116.9	240	260
BMW	5 Series	535i Sedan	48,850	3.0	6	-	1	-	-	-	116.9	300	300
BMW	5 Series	550i Sedan	56,210	3.0	6	-	1	-	-	-	116.9	335	300
BMW	5 Series	ActiveHybrid 5	57,410	4.4	8	-	-	-	1	-	116.9	400	450
BMW	5 Series	M5 Sedan	82,710	4.4	8	1	1	-	-	-	116.7	560	500
BMW	6 Series	640i Coupe	68,450	3.0	6	-	1	-	-	-	112.4	315	330
BMW	6 Series	650i Coupe	78,660	4.4	8	-	1	-	-	-	112.4	445	480
BMW	6 Series	M6 Coupe	97,610	4.4	8	1	1	-	-	-	112.2	560	500



APPENDIX

Competitive Pricing - Price and Performance Data (Continued)

Make	Product Line	Model	(US dollars)	(litres)	High		Model Type			Halo	Body Type	(inch)	(hp)	(ft-lbs)
			Invoice Price	Engine	Cylinders	Perf	Turbo	AWD	Hybrid	Super	Coupe	Wheel Base	Horsepower	Torque
Audi	A4	A4	30,227	2.0	4	-	1	-	-	-	-	110.6	211	258
Audi	A4	A4 Quattro	31,062	2.0	4	-	1	1	-	-	-	110.6	211	258
Audi	A5	A5 Quattro	35,201	2.0	4	-	1	1	-	-	1	108.3	211	258
Audi	A6	A6	39,246	2.0	4	-	1	-	-	-	-	114.7	211	258
Audi	A6	A6 Quattro	41,292	2.0	4	-	1	1	-	-	-	114.7	211	258
Audi	A7	A7	55,894	3.0	6	-	1	1	-	-	-	114.7	310	325
Audi	S4	S4	44,268	3.0	6	1	1	1	-	-	-	110.7	333	325
Audi	S5	S5	47,338	3.0	6	1	1	1	-	-	1	108.3	333	325
Audi	S6	S6	66,868	4.0	8	1	1	1	-	-	-	114.7	420	406
Audi	S7	S7	73,284	4.0	8	1	1	1	-	-	-	114.7	420	406
Audi	R8	R8 4.2 Quattro	114,669	4.2	8	1	1	1	-	1	1	104.3	560	317
Audi	R8	R8 5.2 Quattro	147,033	5.2	8	1	1	1	-	1	1	104.3	525	391
Audi	R8	R8 GT 5.2 FSI	183,024	5.2	10	1	1	1	-	1	1	104.3	560	398
Merc	C Class	C250 Sport	32,876	1.8	4	-	1	-	-	-	-	108.7	201	229
Merc	C Class	C300 4MATIC	36,224	3.5	6	-	-	1	-	-	-	108.7	248	251
Merc	C Class	C350 Sport	38,502	3.5	6	-	-	-	-	-	-	108.7	302	273
Merc	C Class	C63 AMG Sedan	55,614	6.2	8	1	-	-	-	-	-	108.9	451	443
Merc	C Class	C250 Coupe	35,154	1.8	4	-	1	-	-	-	1	108.7	201	229
Merc	C Class	C350 Coupe	40,176	3.5	6	-	-	-	-	-	1	108.7	302	273
Merc	C Class	C350 4MATIC	42,036	3.5	6	-	-	1	-	-	1	108.7	302	273
Merc	C Class	C63 AMG Coupe	57,967	6.2	8	1	-	-	-	-	1	108.9	451	443
Merc	E Class	E350 Sport	47,430	3.5	6	-	-	-	-	-	-	113.2	302	273
Merc	E Class	E350 S 4MATIC	49,755	3.5	6	-	-	1	-	-	-	113.2	302	273
Merc	E Class	E400 Hybrid	51,894	3.5	6	-	-	-	1	-	-	113.2	518	516
Merc	E Class	E550 S 4MATIC	56,172	4.7	8	-	1	1	-	-	-	113.2	402	443
Merc	E Class	E63 AMG Sedan	83,514	5.5	8	1	1	-	-	-	-	113.1	518	516
Merc	E Class	E350 Coupe	47,542	3.5	6	-	-	-	-	-	1	108.7	302	273
Merc	E Class	E250 C 4MATIC	49,867	3.5	6	-	-	1	-	-	1	108.7	302	273
Merc	E Class	E550 Coupe	53,903	4.7	8	-	1	-	-	-	1	108.7	402	443
Merc	CL	CL65 AMG	89,187	5.5	8	1	1	-	-	-	-	113.2	563	664
Merc	CL	CLS63 AMG	142,290	5.5	8	1	1	-	-	1	1	116.3	536	590
Merc	CL	CL63 AMG	198,276	6.0	12	1	1	-	-	1	1	116.3	621	738
Merc	SLS	SLS AMG	176,328	6.2	8	1	-	-	-	1	1	105.5	563	479



APPENDIX

Competitive Pricing – Regression Results

SUMMARY OUTPUT

Regression Statistics

Multiple R	0.97
R Square	0.94
Adjusted R Square	0.93
Standard Error	10,554.40
Observations	52.00

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	5.00	7.59E+10	1.52E+10	136.35	0
Residual	46.00	5.12E+09	1.11E+08		
Total	51.00	8.11E+10			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 90.0%</i>	<i>Upper 90.0%</i>
Intercept	(182,982.14)	55,367	(3.30)	0.00	(294,431)	(71,533)	(275,925)	(90,039)
Horsepower	136.77	16	8.36	0.00	104	170	109	164
Wheel Base	1,674.89	501	3.34	0.00	666	2,684	833	2,517
Super Car	79,318.93	6,201	12.79	0.00	66,837	91,800	68,910	89,728
Hybrid	(12,802.74)	6,624	(1.93)	0.06	(26,135)	530	(23,921)	(1,684)
Coupe	5,499.95	3,908	1.41	0.17	(2,366)	13,366	(1,060)	12,060



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Competitive Pricing – Unused Factors

	<i>P-value</i>
Displacement	0.34
Cylinders	0.09
Performance Tuning	0.96
BMW Brand	0.71
Turbo	0.43
AWD	0.76
Torque	0.09

