

Analysis of BMW against Audi and Toyota

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BMW, also known as Bayerische Motoren Werke AG, is reckoned as one of the largest company in the automotive industry, particularly in the premium passenger cars segment. The German motor company has three strongest brands in the premium segment, which include MINI, BMW and Rolls-Royce. Besides manufacturing cars, BMW has interests in financial services and motorcycle manufacture; however, car manufacturing remains its dominant business. The automobile giant has plants in Europe, America and Asia, with its headquarters in Munich, Germany. BMW (2009) posits that one of the striking competencies of BMW is the company's commitment to manufacture vehicles that set standards in terms of dynamism, quality and aesthetic features. This is driven by its core competencies in engineering and innovation. Despite its large size and superior innovation, the German automobile firm faces stiff competition from other automobile firms, namely Audi and Toyota.

### **Financial Analysis**

The automobile industry is being characterised by cut throat competition among car manufacturers, increasing cost of production and dwindling sales. The global recession witnessed in 2008 seriously weakened the car manufacturing business as consumers cut their spending in secondary goods, something that set back car markets, especially the premium segment market. Due to this erratic business environment facing car manufacturers, this paper will analyse the automobile industry focusing on BMW and how it competes against its major competitors in the premium car segment, namely Audi and Toyota.

### **Efficiency ratios**

Companies utilise internal resources, assets and liabilities, to generate income to the company. Investors, financial analysts and other users of financial statements before making financial

decisions on a particular company assess efficiency ratios of that company. Efficiency ratios are set of ratios used by analysts to analyse how prudent a company is utilising its assets and liabilities. This paper will analyse the following efficiency ratios total assets turnover, ratio of profits to costs and product sales ratio.

$$\text{Total asset turnover} = \frac{\text{Net sales}}{\text{Total Assets}}$$

|                      | 2008                             | 2009                             | 2010                             | 2011                             |
|----------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| BMW in (€ millions)  | $\frac{44313}{23316}=1.90$       | $\frac{37980}{24647}=1.54$       | $\frac{60477}{123429}=0.49$      | $\frac{68821}{110164}=0.62$      |
| AUDI in (€ millions) | $\frac{34196}{26056}=1.31$       | $\frac{29840}{26550}=1.12$       | $\frac{30233}{19117}=1.58$       | $\frac{35998}{23157}=1.55$       |
| TOYOTA in ¥ millions | $\frac{23948091}{32458320}=0.74$ | $\frac{19173720}{29062037}=0.66$ | $\frac{18950973}{30349287}=0.62$ | $\frac{18993668}{29818166}=0.64$ |

$$\text{Ratio of profits to costs} = \frac{\text{Gross profit}}{\text{Cost of good sold}}$$

|                      | 2008                            | 2009                            | 2010                           | 2011                          |
|----------------------|---------------------------------|---------------------------------|--------------------------------|-------------------------------|
| BMW in (€ millions)  | $\frac{6049}{45356}=0.13$       | $\frac{5325}{45356}=0.12$       | $\frac{14545}{54276}=0.27$     | $\frac{10932}{49545}=0.22$    |
| AUDI in (€ millions) | $\frac{5348}{28848}=0.19$       | $\frac{4191}{25649}=0.16$       | $\frac{4195}{26038}=0.16$      | $\frac{5549}{30449}=0.18$     |
| TOYOTA in ¥ millions | $\frac{2270375}{24018865}=0.09$ | $\frac{-461011}{20990581}=0.02$ | $\frac{147516}{18803457}=0.01$ | $\frac{468279}{18525409}=0.3$ |

$$\text{Product sales ratio} = \frac{\text{sales}}{\text{Gross profit}}$$

|                      | 2008                               | 2009                                | 2010                               | 2011                              |
|----------------------|------------------------------------|-------------------------------------|------------------------------------|-----------------------------------|
| BMW (€ millions)     | $\frac{53197}{6049} = 8.79$        | $\frac{50681}{5325} = 9.51$         | $\frac{60477}{10932} = 5.53$       | $\frac{68821}{13065} = 5.27$      |
| AUDI (€ millions)    | $\frac{34196}{5348} = 6.39$        | $\frac{29840}{4191} = 7.12$         | $\frac{30233}{4195} = 7.21$        | $\frac{35998}{5549} = 6.49$       |
| TOYOTA in ¥ millions | $\frac{23948091}{2270375} = 10.55$ | $\frac{19173720}{-461011} = -41.59$ | $\frac{18950973}{147516} = 128.47$ | $\frac{18993668}{468279} = 40.56$ |

This paper will use asset turnover to assess and compare efficiency of the three companies that is BMW, Audi and Toyota. In the years 2008 and 2009, BMW was the most efficient among the three companies; however in 2010 and 2011, Audi overtook BMW as the most efficient company among the three companies.

### Positive Notes for BMW

Despite the harsh economic environment that car manufacturing companies are operating in, BMW has several advantages that make the company to withstand the tough operating environment. These advantages have aided BMW to post profits, increase sales volumes, in China for instance and pay dividend to its shareholders. BMW is reckoned to be a leader in engineering and innovation in the car manufacturing industry. The German automaker develops cars of high standards both in quality and aesthetic. According to Goschel (2005), one advantage that BMW has over its competitors is that the cars they manufacture use combustion engines, thus significantly reducing fuel consumption and emissions. Moreover, combustion engines aid

BMW cars to exhibit strong performance and torque. This attribute endear BMW cars to the customers. Another advantage of BMW cars is that they are of high aesthetic features, ranging from saloon cars to SUVs. BMW, thus, enjoys large market share in the premium segment cars.

## REFERENCES

BMW Group (2009). *Financial statements of BMW AG: Financial year 2009*. viewed 23 January 2013, <http://www.sae.org/automag/features/futurelook/01-2005/1-113-1-81.pdf>

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