

# Just the name, thanks: Why Beemer bought Rolls

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Bayerische Motoren Werke AG (BMW) created a buzz this summer, when it bought the Rolls-Royce name-without the product-for \$60 million. Although such deals are rare, marketers say, the concept on which they're based is nothing new.

"If you study most acquisitions, really what's going on is the purchase of strung brand names," said Ward Randall, managing partner of Atlanta-based Brand Consultancy management consulting firm, which works with clients to increase the value of their brand names.

"We have so many 'me-too'-type products, and brand names are so much more unique. That's why it's easier and more cheap sometimes to buy them than to go out in today's expensive marketing environment and set up to create one," Randall said.

Indeed, buying a company with a strong brand name helps businesses extend product lines across national borders and venture into new categories more easily than by starting a new brand from scratch, marketers say. And companies are finding these deals to be worthwhile investments, as time-crunched consumers and a strong economy buoy the value of brand names.

In July, Munich, Germany-based

BMW paid more than \$60 million (40 million British pounds) for the Rolls-Royce brand name and mar-que after negotiating with London-based Rolls-Royce PLC, said Wei-land Bruch, spokesman for BMW of North America Inc., which is based in Woodcliff, NJ.

BMW bought the name for that price, then agreed to license the rights free-of-charge to Wolfsburg, Germany-based Volkswagen AG until the end of 2002. This followed Volkswagen's June agreement to purchase Rolls-Royce and Bentley cars for more than \$700 million from London-based Vickers PLC, a deal in which VW outbid BMW. Volkswagen reportedly was surprised by BMW's purchase of the Rolls name and did not realize that Rolls-Royce PLC, an aircraft engine maker no longer associated with luxury cars, controlled the rights to the name.

According to BMW, the licensing agreement will enable Volkswagen to manufacture and distribute Rolls-Royce automobiles until 2002, when BMW will take control of Rolls-Royce production and Volkswagen will operate Bendey as its line.

Also, the BMW-Rolls-Royce deal enables the carmakers to continue under an existing agreement to make Rolls-Royce engines and other parts.

Besides Volkswagen, BMW's purchase of the Rolls-Royce brand name surprised some car industry experts, who said this type of deal is unprecedented. According to David Cole, director of the Office for the Study of Automotive Transportation, a division of the University of Michigan Transportation Institute in Ann Arbor, the closest example to the Ralis-BMW deal is Auburn Hills, Mich.-based Chrysler Corp.'s purchase of American Motors Corp. in 1987.

"It was mainly because of the Jeep brand, which has a very strong identity," said Cole, who researches the car industry. "That (buying a brand name) is clearly one of the reasons car companies buy other car companies."

**In fact, BMW aims to offer higher-**

priced-luxury-model vehicles in the long term, and the Rolls-Royce name will help the carmaker to do so, Bruch said. BMW's existing products can cost \$92,000, and some Rolls models on the market go for as much as \$283,000.

Indeed, buying the Rolls name is cheaper and easier for BMW as a means of launching a different line of cars, rather than create a new line from scratch, said Chiranjeev Kohli principal at I.D.entity, a corporate and brand identity research firm based in Brea, Calif. Kohli is also a professor of marketing at California State University at Fullerton.

That was the case for Vevey, Switzerland-based Nestle S.A. in 1992, when it acquired Perrier ear-bonated mineral water for \$2.5 billion, well above the book value, Kohli said. He added that Nestle entered into the deal primarily to purchase the strong Perrier brand name. Nestle already was known for manu-facturing such products as baby foods, cereals, milk and dairy prod-ucts desserts, snacks and chocolate.

"It wasn't like Nestle couldn't make mineral water," Kohli said. "The premium they paid was high because of the brand name. The expense was justified because it gave Nestle a loyal consumer franchise that could be used."

Also, a company such as BMW may purchase a brand to change consumer perception about its exist-ing product lines, said Bob Schnor-bus, director of macroeconomic analysis for J.D. Power and Associ-ates in Detroit. The Agoura Hills, Calif.-based consulting firm assists clients in market research, economic forecasting, strategic analysis and training.

"Because you'll associate Rolls-Royce with BMW," Schnorbus said, "you'll expect that quality to trans-late from Rolls-Royce to the quality of the (BMW) product."

When a business decides to pur-chase a brand name, it may deter-mine the price through a number of formulas, using both quantitative and qualitative techniques Yet, mar-keters say no method is problem-

free, which is why companies some-times rely on their gut feeling about a brand's value.

For instance, when marketers use an accounting approach, relying on such comparisons of financial per-formance as unit profitability and return on investment, they could get unreliable results. The account-ing approach helps determine how much a brand is worth in a dollar amount; however, it doesn't consid-er other variables such as the size of the company, sales volume and manufacturing efficiencies, which don't affect brand equity, Randall said.

When marketers determine brand valuation by measuring such vari-ables as brand awareness, brand affinity, brand associations and per-ceived quality, they receive qualita-tive results and not a dollar amount. But the method could work well for ranking brands, Randall said.

A price-premium approach, based on the price consumers are willing to pay for one brand vs. another, brings results in dollar amounts. But this method works well for brands spe-cializing in a single product catego-ry\* Randall said, as opposed to a maker such as Sony, a wellknown brand for a wide range of products,

For BMW, their purchase most likely was emotionally driven, rather than based on a scientific marketing approach, Cole said.

"Because Rolls is such a low vol-ume product, I think it (BMW's pur-chase of its name) was something done on emotion and judgment, rather than a comprehensive formu-la," Cole said. He noted that Rolls makes a few thousand vehicles per year, as opposed to the average car-maker, which produces 250,000 to 300,000 vehicles annually.

With that in mind, Cole added, \$60 million sounds like a hefty price to pay for the Rolls name. But BMW thought otherwise.

"The price would have been more if it (the -purchasing company) wasn't BMW," Bruch said. Rolls-Royce "took into consideration the special connection it already has with BMW."