EBOOK

When your team disagrees on strategy, don't invite the journalists.

Quantifying the business cost of strategic disagreement

52% of business leaders failed to reach their business goals in 2018.

- 2019 CEO Benchmarking Report

In her book "The Change Monster," management consultant Jeanie Duck stated that *"the lack of alignment among the leaders is the most common cause of failure for major change efforts."*

Duck knows something about transformation: She pioneered Boston Consulting Group's change management practice.

Management consultants are often called upon to help companies clarify strategic intent by building agreement among executives—and it's not always an easy process. Innosight, the respected boutique strategy consultancy founded by Clayton Christensen, acknowledged that *"leadership alignment is a persistent challenge."*

Even for consultants, it can be difficult to quantify the business cost of misalignment.

BMW—the German car manufacturer—provided an opportunity to do exactly that in summer 2019.

Public fight at BMW

At a public event on June 25, 2019, BMW CEO Harald Krüger announced plans to accelerate electric car plans by two years and bring to market 25 electrified models in 2023. Krüger commented to journalists: “We expect to see a steep growth curve towards 2025. Sales of our electrified vehicles should increase by an average of 30% per year.”

However, a few days later, Klaus Fröhlich, Director of Development at BMW, took the extraordinary step to publicly disagree with his own CEO.

During a roundtable in Munich, Fröhlich declared to a journalist: “There are no customer requests for BEVs (Battery-only Electric Vehicles). None. There are regulator requests for BEVs, but no customer requests.” He continued, “If we have a big incentive, we could flood Europe and sell a million BEV cars but Europeans won’t buy these things. From what we see, BEVs are for China and California—and everywhere else is better off with PHEVs (plug-in hybrids).”

Well, that was awkward. But it also served as a useful example to anyone who wants to measure the financial and strategic impact of lack of strategic agreement among executives.

Fasten your seat belt, and follow us as we measure the cost—in both dollars and talent—of BMW’s lack of agreed-upon strategy.

When your competitor has 7 times your scale

BMW launched its i3 electric car in 2013, when Tesla had barely started to bring its Model S to market and was teetering on the brink of bankruptcy. Since then, however, BMW has not developed any new electric cars—and now lags behind most major automakers in this segment.

Tesla remains BMW's top threat. The vast difference in scale that BMW and Tesla have achieved since the early days of the electric adventure in 2013 speaks for itself: By 2018, Tesla had expanded its range and was delivering 245,000 electric vehicles annually. BMW sells only 35,000 of its i3 model per year—a staggering 7:1 difference in production scale.

Agree or fail.

Strategic disagreement between Krüger and Fröhlich largely explains why BMW has been unable to capitalize on its early lead in electric cars. Duck stresses how lack of strategic agreement at the top creates a toxic environment that stymies change. This is what's most likely happening at the automaker.

We can imagine how the disagreement between Krüger and Fröhlich is impacting their organization:

- Decision-making inside BMW has likely drastically slowed.
- Executives' disagreement at the top creates enemy factions further down the organizational structure.
- Budgets are wasted on aborted initiatives.
- Competing goals between teams curtail collaboration.
- Lack of clarity crushes morale among employees.

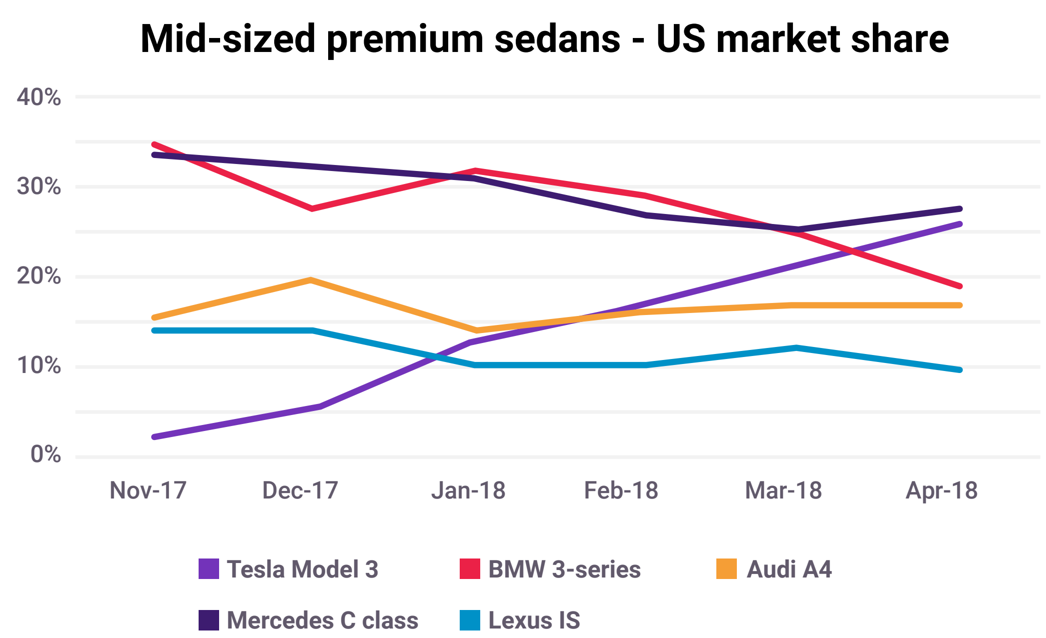
Regardless of the type of company you run, you need an explicitly stated, agreed-upon business strategy. This is the foundation on which leaders can design a deliberate talent strategy and plan other productive investments. When this foundation is shaky, the bill adds up.

A 9-figure disagreement

Let's look at the numbers. We'll estimate how much revenue BMW is foregoing by not having a clear and agreed-upon electric strategy—and thus lacking a competitive offering in the segment.

For this analysis, let's focus on two vehicles that most auto analysts agree compete directly with one another: BMW's 3 Series and Tesla's Model 3. Both models are critical for their respective parents: The 3 Series represents about 30% of BMW global sales, while the Model 3 represented 82% of Tesla's sales in the third quarter of 2019.

In 2018, Tesla shared the following chart, showing the Model 3's impact on the U.S. mid-sized premium segment between Q4 2017 (when the Model 3 was launched) and Q2 2018:



Using this data, we see that the 3 Series was the competitor most impacted by the Model 3, with its market share dropping from 35% to 20%. This segment represents about 450,000 sales annually—so Tesla is constraining BMW's revenue by 67,500 cars. This represents, in our estimate:

- $2.7B lost in annual revenue
- A 22% fall in BMW's U.S. car sales
- A 2.5% decline in BMW's global revenues ($107B)

One may object that other factors could have played into the erosion of 3 Series sales. However, we can reasonably posit that the Model 3 competition is the dominant factor: Tesla data shows that the 3 Series is the second-most traded-in car by Model 3 buyers. (The first is the Toyota Prius.)

If you think all of this is theoretical, take a look at BMW's most recent sales results:

From January to June 2019, the auto maker's U.S. car sales fell 14.5% compared to the same period in 2018.

The only reason the data doesn't show our 22% drop estimate is because higher sales of their redesigned 5 Series mask the 3 Series erosion. **This is really happening.**

Risk here, risk there, risk everywhere

BMW competes globally against Tesla—not only in the U.S. Strategic disagreement is putting BMW's business results at risk *around the world*. Anecdotal evidence suggests Tesla is indeed applying significant pressure on BMW beyond North America.

For example, Norway is the most electrified car market in the world—with 50% of new cars being electric. In this market, Tesla is pummeling BMW. We estimate that Model 3 outsold the 3 Series by a ratio of 12 to 1 in June 2019.

Let's look at the numbers globally: BMW sells 2.5 million cars every year—and the U.S. represents 12% of its volume. If Tesla causes BMW to experience the same 20% to 25% sales erosion globally as it does in the U.S., **BMW is at risk of losing $20 billion in annual revenue.**

Strategic disagreement among BMW top executives is putting 20% of the company's revenue at risk.

In other words, **each day Krüger and Fröhlich are unable to resolve their strategic differences costs BMW $55 million in lost revenue.**

We can picture the frustration of Harald Krüger. He sees the threat and has clearly been trying to accelerate the development of electric cars to compete against Tesla. However, his development lead has shown lukewarm support for that strategy—and essentially stalled Krüger's efforts.

The hefty talent cost of misalignment

We did make several assumptions in our analysis. But even if we overestimated impact by a factor of two, strategic disagreement is still costing BMW $10 billion—that's more than its 2018 net income of $8 billion.

The damage goes beyond financial losses, too. Dissent at the top is likely reverberating throughout the organization—lowering morale and driving high performers out the door. For example, take a guess who Tesla's new VP of Europe is. His name is Jan Oehmicke—and he was previously BMW's VP of Sales and Marketing.

BMW's senior leadership isn't impervious to the impact, either. The auto maker's Board of Directors expressed its impatience at the lack of progress in electrification at the BMW Annual Meeting in May 2019. It's reportedly considering replacing Krüger as CEO.

How much revenue are you losing to strategic disagreement?

Ask yourself these **five questions:**

1. When was the last time your leadership team had an explicit review of the strategy?
2. How do you know if your leadership team is fully supportive of your strategy?
3. How much is at stake if your strategy does not succeed?
4. Are you on track to deliver on your business objectives this year?
5. Are you experiencing friction in those parts of your organization most critical to your strategy success?

BMW is a cautionary tale. Even in the best-run organizations, disagreement can creep in and materially impact business performance in a real, measurable way.

Our experience at The Predictive Index® supports this. Most of our clients' top management teams come to our talent strategy workshops misaligned on their strategic intent. Our data shows that—on average—leadership teams agree on only 70% of their strategic goals.

What's critical is that the leadership team gets to agreement after a healthy discussion and facilitated process. As business leaders, our responsibility is to have the hard conversations that address disagreement and build coherent, committed, and accountable teams. Only then can our employees deliver their full potential—enabled and supported by a clear strategy and well-aligned leaders.

How aligned is your leadership team?

Don’t make the same mistake as BMW.

Make sure your executive team is aligned on the business strategy with the PI Design solution

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