

## BMW's push into electric cars

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*The company is developing an all-new electric vehicle under its "Project i." But will battery prices fall enough to make the car a success?*



*A test Mini: BMW says plenty of customers shelled out to lease the electric version Johannes Eisele/Reuters*

For years, BMW resisted building hybrid cars, believing that more efficient gasoline or diesel models were a smarter bet. But as the hybrid gives way to the all-electric vehicle—at least in the eyes of optimists—the German automaker aims to be at the front of the pack. BMW is spending more than \$1 billion to develop a small car for urban drivers that will include an electric-powered version. "We [in the auto industry] have the internal combustion engine so strongly fixed in our minds that we think it will last forever," says BMW Chief Executive Norbert Reithofer. "I don't believe that."

Although Reithofer is vague on the timing, BMW is working on the electric vehicle under an initiative called Project i. Reithofer says he may even create a new brand for high-end city cars, in addition to the company's current BMW, Mini, and Rolls-Royce nameplates. To gauge interest and test the concept, in New York and Los Angeles BMW is leasing 500 Mini sedans that have been modified to run on batteries.

To head Project i, Reithofer tapped one of his star executives, Senior Vice-President Ulrich Kranz, who was instrumental in transforming the British-built Mini into a hip, upscale brand. Project i will also develop vehicles with gasoline engines, a necessity in emerging markets lacking reliable power grids. But the 80-member team has increasingly focused on battery propulsion, Kranz says, as regulators around the world tighten emissions standards.

BMW's Mini test project in New York and L.A. has helped allay one of the industry's big fears about electric cars: that few would be willing to pay a premium for a vehicle that can travel only 150 miles between charges. BMW says it had no trouble finding customers eager to shell out \$850 a month to lease the modified Minis, even though the cars seat only two because batteries displace the rear seats. Sure, a BMW 5 Series midsize sedan can be leased for less. But with the electric Mini, Kranz says, "you're driving the future."

"Willing to pay"?

Skeptics counter that the future may be a long way off. Even if battery prices fall to a third of their current level, they'll still cost \$14,000 per car, Boston Consulting Group estimates. Such concerns have spurred caution in the industry. Rival Daimler is testing electric Smart cars in London, but the company has yet "to see proof that the relatively high numbers of people who say they are interested in these vehicles are willing to pay what it costs to make them," says CEO Dieter Zetsche.

Others are optimistic. Consultant Bain & Co. figures battery costs could fall to \$4,000 per vehicle by 2020, which means the showroom price of an electric could be as low as \$20,000—about half what most manufacturers envision for their first electric models. At that level, Bain estimates, automakers could sell as many as 175,000 electrics a year in the U.S. alone. "We can bring these vehicles to market for a reasonable price," Reithofer says.

The well-heeled folks who drive Bimmers might be just the kind of buyers who would want a sporty electric for commuting and short trips around town. That would put BMW in a better position than rivals such as Mitsubishi, Renault, and General Motors, which also plan to make battery-powered vehicles. "Premium customers," says Gregor Matthies, a Bain partner in Munich, "want to buy from a trusted brand."

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