

# When South Carolina Met BMW

## Behind the deal that brought a halo effect and Bavarian meatloaf to Spartanburg

BY BETTY JOYCE NASH

Early in 1996, workers at the BMW Manufacturing Co. plant near Spartanburg, S.C., were building the BMW Z3, a two-seater luxury sports car. But quality-control numbers were slightly off. Pressure mounted at the plant, just a year and a half old, to meet standards and make deadline.

“There was the sense that we Americans were being held to an unfair standard,” says Bobby Hitt, a South Carolinian who retired in January after 18 years as BMW’s head of corporate affairs. “We probably were. It was a new plant, and it was attracting a lot of attention from around the world.”

Had BMW risked its image by planting its first full manufacturing facility outside Germany in the hills of South Carolina? Could the workforce meet German standards? Would the experience burnish — or tarnish — South Carolina’s image?

The goose-bump moment arrived later that year at the Z3 launch. With about 1,000 employees gathered in the cafeteria, Hitt recalls BMW Chairman Bernd Pischetsrieder’s words, after thanking employees: “Now you have to do this every day — the whole world is watching. You could have heard a pin drop.”

Last April, the Spartanburg BMW plant rolled out 23,059 vehicles — three-quarters of them for export. (The BMW Group’s U.S. sales went up by 10 percent in 2010 over 2009.) The plant’s latest and biggest addition was announced in 2008, amid recession, and completed in late 2010: The company invested \$750 million and added 1,600 jobs to tool up for the next generation of crossover sport utility vehicles, which BMW calls sports “activity” vehicles.

But back in 1992, when the plant was announced, people wondered whether South Carolina’s workforce could produce these prestige vehicles. Since the 1970s, the state’s manufacturing base, largely composed of textiles, had been dominated by lower-skilled, low-wage work. Moreover, textile jobs were chasing even lower-wage regions abroad in the wake of falling trade barriers. As those jobs went away, income levels fell.

Foreign company operations were not new to South Carolina. The state already had 75 firms from Germany alone, but South Carolina workers had to prove they could make BMWs.

BMW, as it turns out, had something to prove too.

### The Germans are Coming — Again

When BMW decided to make cars in the United States in 1988, its market share here had fallen. U.S. sales had declined

from a peak of nearly 100,000 in 1986 to about 53,000 in 1991, the year before the announcement. The dollar’s decline against the Deutsche Mark had jacked up the cost of a \$16,000 BMW in the states to somewhere between \$20,000 and \$25,000. “By the time they announced the plant, they were in a terrible position,” says Hitt, who was involved in early negotiations to woo BMW, and who is now the state’s secretary of commerce.

Against this backdrop, too, loomed Volkswagen’s 10 years in Pennsylvania. VW opened the first European car assembly plant in the United States in 1978 to build the Rabbit. The effort was plagued by mechanical problems and poor timing as the U.S. market returned to a preference for big cars. While the model had some good years, declining Rabbit sales prompted VW to close the plant in 1988, the same year BMW started seriously considering the states. Automotive economist George Hoffer of the University of Richmond observes, “BMW came here with the history of VW, a much bigger firm, having failed.”

But the prospect of making cars here was tempting in view of the North American market size, growing protectionist sentiment, and the weak dollar. By the end of the 1980s, Nissan made trucks in Tennessee, and Toyota assembled vehicles in Kentucky.

The Japanese manufacturers, however, made low-cost vehicles that sold in high volumes. BMWs are not mass-market cars.

South Carolina started courting BMW in the late 1980s — then-Gov. Carroll Campbell cold-called the company in Germany five years before the 1992 announcement. And the early 1990s recession prompted state commerce officials to step up the incentives to bring jobs. The 1980s had begun, after all, with the Chrysler bailout and was closing with hefty deals elsewhere for not only the Japanese but also domestic manufacturing plants. BMW’s package included 900 acres of farmland near Interstate 85 and the airport worth \$25 million; infrastructure and utilities; negotiated fees instead of property taxes; airport land and improvements; and worker training. The incentives were worth more than \$130 million, or roughly \$200 million in today’s dollars.

A BMW spokesman says the company reviewed 250 sites worldwide before choosing Spartanburg County, in the South Carolina Upstate, an 11-county region in its northwest corner.

The state had the goods: BMW preferred the Eastern Standard Time zone because it allows real-time conversations between South Carolina and Germany. BMW liked the

state-funded, on-site training through the S.C. Technical College System, established in the 1960s to help tune up the workforce, says Jim Morris, former head of the system. Efficient transportation also appealed to the company: an international airport, Interstate 85, and direct rail transportation to the deepwater Port of Charleston.

BMW also was pleased by something South Carolina did not possess: an existing automotive culture. “BMW wanted to develop its workforce and routine in its own way,” Hitt says. And it probably didn’t hurt that union activity in the state is practically nonexistent. Foreign auto firms locate, in most cases, in right-to-work states.

Although BMW would be the state’s first automaker, South Carolina already had a small auto-parts cluster. Michelin had established its first tire plant in 1973; in 1988, Michelin had even moved its North American headquarters from New York to Greenville, S.C. Bosch began producing injection systems for diesel engines in South Carolina in 1974.

To draw attention to the brand, BMW planned a new vehicle launch. First, however, the plant cut its teeth on BMW’s most popular model, the 3 series sedan, the 318i, which it started producing in 1994. That way, the plant could tap the expertise of its Munich plant, which makes the same car.

After that warm-up, work commenced in 1995 on the Z3, a sports coupe. The plan worked. Publicity over the Z3 drove curious car lovers to dealerships where customers admired the Z3 but purchased the more practical sedan, BMW’s best seller. That sent sedan sales through the roof, Hitt says, and drove more production here and at the factory in Munich, proving that the U.S. factory would not take jobs from Germany.

Incentives commonly get the credit when a state wins a major plant, but in the case of BMW’s Spartanburg plant, they may not carry the weight most people think. “They were looking at us before we were looking at them because they needed an American presence,” says Harry Miley, an economic consultant in Columbia, S.C., who formerly worked in the commerce department and for the late Gov. Campbell.

Though BMW brought cachet and jobs to South Carolina because people now identify the state with the luxury product, foreign firms have populated the state for half a century. BMW rolled into South Carolina, metaphorically speaking, on steam generated by predecessor firms such as Michelin, Siemens, Bosch, BASF, and Adidas.

### Precision Textile Machines

Fifty years ago, business leaders in the Upstate, South Carolina’s manufacturing hotspot, aggressively courted European firms. But back then they sought the makers, sellers, and fixers of the precision machines crucial to textile production. As textiles declined in the 1970s, state leaders scoured the world even harder for new investments. Today, more than 250 firms from 24 countries



*X models at the BMW plant undergo final visual inspection before receiving components such as power trains, transmissions, engines, and front and rear axles.*

have settled in the Upstate alone. More than 100 foreign corporations have even located their North American headquarters in the region.

BMW’s arrival accelerated the Upstate’s nascent culture change. About 2 percent of the BMW workforce in South Carolina relocates from outside the United States; on average, they stay two to three years, according to the company. (A team of Germans, Americans, and a South African currently manages the plant.) The typical number of expats is maybe 100 to 120, more at vehicle launch time.

The region reflects the influence of the foreign firms. Michelin started the bilingual French School in 1974 for expatriate families. The school educates about 70 students. German, Korean, and Japanese Saturday schools offer language and culture classes, as does a Chinese school. There’s great sushi. An Oktoberfest. Homemade pretzels, sausages, and other German staples at the Bavarian Pretzel Factory.

Pretzel Factory owners Linda and Gottfried Gschnitzer moved to Greenville three years ago. Gottfried worked for many years at BMW’s Munich plant. They came on vacation, went back to Germany, and made plans to move. “The weather was beautiful,” Linda says.

In 2010, they opened the restaurant. They also cater to BMW every day at lunch — popular entrees include Bavarian meatloaf, spaetzle, and goulash. “There are quite a few Americans who eat with us too,” she says. Sales have grown steadily at the restaurant, which has just agreed to sell bread to Whole Foods. The German customers, she says, love to speak German while they’re in the restaurant where the Gschnitzers also stream German radio.

The Upstate change has been dramatic, says Greenville native Whitney Walters. “If you’d have talked to me in 1978, I would have said, ‘I can’t wait to get out of here,’ and then, we just opened up.” She credits the Upstate’s increasing international presence with adding to the energetic mix of theater, restaurants, schools, and events, including the BMW Charity Pro-Am golf tournament on the PGA’s Nationwide Tour.

Walters also directs the International Center of the

Upstate, a nonprofit that shows transplants the ropes — which banks handle international currency or where people can get good translation services. They also offer language classes, films, and lectures, and even help new arrivals with details such as school registration. “Sometimes it’s as simple as saying, ‘Here are some of the people who speak Russian in town,’” she says.

The BMW Performance Driving School Delivery Center and BMW Motorcycle Rider Training School also draw about 10,000 visitors a year. For a fee, drivers can try out cars on the tracks.

But the presence of foreign firms and people is unremarkable today — it’s common to hear foreign languages everywhere, Linda Gschnitzer and Walters say. To everybody in the Upstate, Hitt says, it sounds like money.

### Polish Skills, Burnish Image

Just about the time Walters considered leaving, the textile business was slipping away too. Firms like the 150-year-old textile giant Milliken & Co. still thrive, but the textile industry today is a shadow of its former size. The BMW plant is part of a larger effort by South Carolina to grow the automotive segment and revive manufacturing jobs, which fell from about 18.4 percent share of employment in 1999 to about 11.7 percent in 2009. The state has for decades lagged the nation in per capita income and living standards.

The success of BMW proved the workforce was capable. Overcoming a perception that workers were poorly educated and unskilled has helped the state’s image. The logic was to disprove the notion that maybe your average South Carolinian can make wheels but can’t make a sophisticated car, according to economist Doug Woodward of the University of South Carolina. The effort paid off.

When the plant opened, 60,000 people living within 50 miles of it applied for 1,000 jobs. Since then, BMW has invested a total of nearly \$5 billion and has spawned 7,000 direct jobs — not counting the additional jobs created by suppliers and retailers that migrated to the region because of BMW.

As expected, the technical college system played a pivotal role. “There was a good bit of pre-employment training and then some on-the-job training,” says former president Morris. “The whole concept of pre-employment is you have a workforce that’s ready to go to work.”

Today, South Carolina’s automotive cluster represents 5.4 percent of employment statewide, according to Woodward’s study. Research and development now takes place at Clemson University’s International Center for

Automotive Research, established seven years ago in Greenville. BMW gave \$10 million to help fund a graduate program in automotive engineering.

Other foreign subsidiaries are moving in: German transmission maker ZF Group will open a plant in Laurens County — 900 jobs are projected by 2012. In Spartanburg and Greenville counties, 8,000 and 2,900 people, respectively, worked in core auto manufacturing jobs in 2008 — that is, the firms that assemble vehicles of various types and about 300 supply firms that sell directly to those original equipment manufacturers.

And then there’s been some positive press: The Upstate receives the most foreign investment per capita of any region in the United States, according to *Fortune*.

Raising per capita income is something else, though. That’s the point, after all, of the incentives: Jobs. Income. Prosperity. But that takes time.

Per capita personal income (PCPI) in the state has fallen over the past decade. Greenville County’s PCPI in 2008 was 92 percent of the national average, but that was a decline from its par with the rest of the nation in 2000; in Spartanburg County, PCPI in 2008 was 76 percent of the national average, down from 82 percent in 2002, according to the Bureau of Economic Analysis. By most accounts, the region still hasn’t shaken its nondurable manufacturing losses; as automotive jobs grew, textile jobs continued to plunge. The service sector has grown — but most of those jobs don’t pay as well as manufacturing jobs.

The hope is that change will come, if slowly, in part because of the relationship between South Carolina and BMW, which benefits both. And South Carolina proved its workforce could handle advanced, precision manufacturing work. “The BMW decision clearly demonstrated to, literally, the world, that we have a workforce that can produce quality products,” Morris says.

This “halo effect” and positive publicity is something money can’t buy, and the BMW investment produced that effect, Woodward says. No matter how many tires Michelin produces, or how many soccer balls Adidas pumps up, or how efficient a Bosch electronic component, the presence of a high-profile company like BMW piques interest because of the status and reputation of the very visible finished good.

And this tangible prestige pervades the Upstate now, thanks to a BMW perk, the employee leasing program: Plenty of BMW sedans and sports activity vehicles now glide along the highways and back roads of these red clay hills.

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## READINGS

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