Core Relations and the Intermediates - The Case of Prestige Cars

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Sales & Distribution (S&D) strategies in the prestige car segment are under debate both from inside the automotive industry and from legislators. New actors and dealers are attacking with business models based on success from other industries. In the European Union, the S&D are also under pressure from the European Commission. The present Block Exemption will be deregulated from October 2002 according to most experts. One reason is the realisation of the single market; another is to open for more customer pull enabled by more efficient IT-support. The present system is typically market push of new cars from OEM via dealers to final customers. This paper investigates the driving forces and outlines three scenarios for the distribution of cars. Our main conclusion is that the challenge is to decrease the transaction costs at the same time as the creation of customer value is given a higher priority.

We propose a new concept, namely ‘core relations’ for the long-term, knowledge-based relations between the OEM and the dealers. For the deeper understanding of the process of change we are applying this concept in combination with ‘interorganisational competence’ and ‘knowledge development’ driven by ‘dynamic capabilities’. We have identified two key aspects. Firstly, a focus on efficiency, effectiveness and brand building reflects a necessity of using multiple channels in the approach towards the customer. Secondly, knowledge-sharing routines have to build on the relation-specific assets in both the OEM-dealer relation and the dealer-customer relation.

Keywords: sales, distribution, car, core relations, value creation

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1. Introduction

During the 1990s there has been a remarkable increase in productivity in the product development, purchasing and production functions in industries such as aerospace, automotive, and communications. Lean production, lean management and global purchasing are programmes that have increased the efficiency in these functions. However, there is no corresponding development in sales and distribution (S&D). This part of the supply chain is not as efficient as the upstream activities. The relative cost for S&D compared to the other main functions: product development, purchasing and production, has increased between 1990 and 1997. The

data of the S&D costs presented by the EC commission (EC, 2000) for 1998 indicate that it in the EU was about 30 per cent in the US 25-27 and in Japan 29-31. These data, however, are not collected for analysis of the relative S&D efficiency between the three major automotive regions in the world.

About half of the costs for S&D are advertising and sales promotion (SP), e.g. introduction of new models. In relation to the other components of the total sales price of each sold car S&D is the second largest part, Figure 1. Therefore the pressure on the S&D function is now very high to increase productivity. At the same time, e-commerce is opening for entrepreneurs to come in with and present actors to implement new business models. The new actors in car sales and distribution have placed themselves in-between the customer and the dealers. They have experience from other industries[1]or from IT applications for enhancing customer satisfaction[2]. Traditional structures are questioned and the new technology enables new innovative business models for dealer and manufacturers.

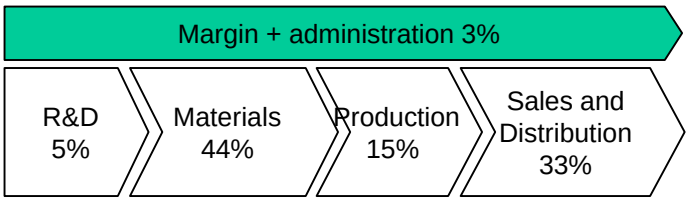

Figure 1 Cost distribution in the supply chain 1997 (A.T. Kearney, 1997).

Both the OEMs, dealers and new actors, without any tradition in car distribution, have taken the first steps in this direction. There are three major drivers for increasing efficiency in the S&D system for private cars. Firstly, the manufacturers are looking for 'lean distribution' to match 'lean production'. Secondly, the new IT-based middlemen are trying to cut margins and introducing new business models for sales and distribution. Thirdly, the EC would like to deregulate the car distribution in order to create more innovative S&D systems and make the single market working. However, in the dialogue with EC about the Block Exemption the automotive industry in EU is arguing for status quo (ACEA Position Paper, 2001). Together with the OEM-Dealer brand strategy, these positions do not give an impression of an innovative industry.

Our aim is to develop new concepts for the analysis of the dynamics of marketing systems. By introducing new concepts in an analysis of an industry under high pressure for rapid change we can present a model for different alternative developments. Our approach is conceptual and analytical. Accordingly, the paper addresses the following questions: Which driving forces affect the car sales and distribution? What are the key aspects for the supply chain in delivering customer satisfaction? We articulate the central issues in this relationship in order to take a step towards developing a theory that captures the unique features of this part of the supply chain. The central issues, which influence S&D, are incorporated into three scenarios further analysed and used in developing the theory as well as some managerial implications.

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[1] Examples from US are CarsDirect.com founded by Michael Dell who used experiences from computer manufacturing, sales and distribution, and Wayne Huizenga with a history in waste management (WMI) and video stores (Blockbuster) which presently operates a 400 dealership outlet chain and internet business under the name of AutoNation.

[2] priceline.com, CarPoint.com

We are focusing on the prestige car segment of the automotive industry. This is where the major effects of environmental changes can be expected (e.g. EC block exemption number 81(1) and 81(3) in the EC law that regulates car sales are valid until September 2002). In case of a deregulation, there will be openings for new business models. After a deregulation the OEM's ability to control new S&D models that emerge would be reduced.

2. Core Relations – A Strategic Issue

In our studies of supply chain management (SCM), we have found dramatic changes in the buyer-supplier relationship during the last decade (Brandes *et al*, 1999). Financial goals and changes in technology are the two most powerful drivers in this change process aiming at more efficient SCM. The issue of building a sustainable competitive advantage is not only about in-house development of core competence, but also about the dynamic processes in the cross-section between the actors in the total supply chain. One of the main enablers of this development is information and communication technology (ICT) development. The pattern is very much the same in industries such as the aerospace, automotive and communications: increased outsourcing of non-core components and materials is reducing the capital employed for the prime.

Even core components and systems are sometimes outsourced. This is the only way for the relatively small OEMs to get access to economies of scale or new technology (e.g. engines for aerospace). Sometimes, very close and long-term relations develop into partnership relations (Brandes *et al,* 1999). We suggest a new concept 'core relations' for these processes that are of great strategic importance. A core relation is an intentionally long-term, knowledge-based relation between a buyer and a seller who are aiming at close co-operation. The core relations are connecting all links in the supply chain.

In the strategic analysis of the development of more efficient S&D, we must consider the roles of the actors. The OEMs or primes own the product brands that are the basis for all businesses in the supply chain. Therefore they have to focus upon the management of the interfaces, relations and contracts from the suppliers all the way to the final customer. This is the reason why we are starting with the OEMs strategic issues.

At the same time OEMs' control over the operational part of the value adding supply chain is decreasing as suppliers are taking over a larger share of upstream operational activities. Cross-functional and organisational integration is increasing. The complexity of the system is growing as illustrated in Figure 2:

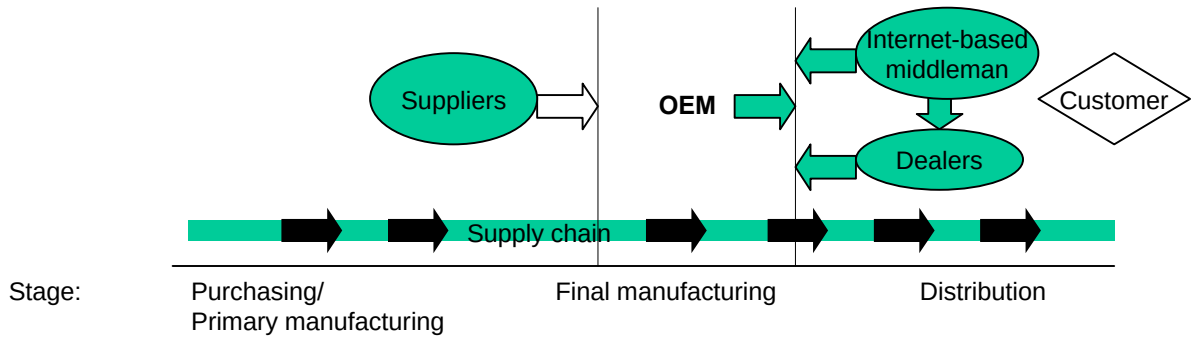

Figure 2 OEMs' strategic position in the supply chain

Margins for the traditional dealers, new car sales have decreased during the 1990s. According to an EC Report (EC, 2000), the dealers' margins for new car sales are low. The average margin for traditional dealers on new car sales in Sweden was 7 per cent in 1999 (Sundé, 2000). From this margin the new Internet-based middlemen are trying to take a part to establish a unique position. In a system where law protects the exclusive distribution, the new middlemen have to buy via the traditional dealers. In a deregulated system the new middlemen would also threaten the OEM's margins. Will these common threats bring the OEMs and the dealers closer together? Will the OEMs invest more in IT together with the dealers to support their marketing and sales activities in order to meet the threat from the new Internet-based middlemen? Or will the OEMs go their own way and invest in direct IT sales channels to the final buyers? In a deregulated EU the dealers' strategic position will be strengthened. Would the leading dealers introduce models from competing OEMs, e.g. a selection of 4x4 and station wagons?

Due to financial restrictions the OEMs do not want to increase their investments (brick and mortar facilities) in the distribution channel. Such a strategy should increase the OEMs' capital employed in downstream supply chain investments and this is not what they are planning for. The OEMs' programmes for decreasing capital employed have been successful during the 1990s.

According to Ljung (2001) and Hallström (2000) the initiative to structural changes, innovative projects and marketing programmes are to a great extent coming from the OEMs.. The culture in the S&D is therefore as between the principal and the agent. Very few innovations are coming from the incumbent dealers. For example, Ljung's (2001) analysis shows that the independent Volvo Car dealers in Sweden are very satisfied with their situation. Hallström (2000) shows that dealers and their sales personnel is from the customer point of view the most important way to get in contact with the manufacturers. They are also the main source for the manufacturers to influence the customer's preferences, priorities and choices.

3. Theoretical Approaches

There is an interesting imbalance between different theoretical aspects of this field and also between theories and best practice. More general research approaches of interest here are to be found in the fields of industrial organisation, e.g. Porter (1980; 1985; 1990) and transaction cost economics (TCE) (Williamson, 1999). In this context, the automotive industry (in many respects one of the most competitive of the major, mature industries), competitiveness and performance are key concepts for the understanding of the changes. Porter (2001) argues for combining activities and using multiple channels. However, Porter/Competitive Strategies and Williamson/TCE can only offer partial explanations for the understanding of the SCM in the automotive industry. Their major weakness is that both approaches are very cost focused. There are no concepts for the understanding of the dynamics, value creation and other processes that are generating income. We need other references for these aspects.

The resource-based theory of strategic management (Wernerfelt, 1984; 1995) and the concept of core competence (Prahalad and Hamel, 1990) offer a framework for analysing and understanding why the intellectual capital and knowledge are of great importance for the understanding of competitive power.

Teece *et al* (1997) has made an interesting contribution by suggesting the concept of 'dynamic capabilities', defined as: "the ability to sense and to seize new opportunities, and to

reconfigure and protect knowledge assets, competencies, and complementary assets and technologies to achieve sustainable competitive advantage. … It is relatively easy to define dynamic capabilities, quite another to explain how they are built. Part of the answer lies with the choice of organisational form, and part lies with the ability to strategize". (Teece, 1998 p 72)

Firstly, this reference opens for a deeper analysis of the recent development in the automotive industry with partnership or core relations that lead to relations as if the buying and selling firms have created a partial and virtual reality merger without any ownership relations. Secondly, Teece (1998) is developing the concept of dynamic capabilities to a model for capturing value from knowledge assets. His major point is that "the key sources of wealth creation at the dawn of the new millennium will lie in the new enterprise formation; the renewal of incumbents; the exploitation of technological know-how, intellectual property, and brands; and the successful development and commercialisation of new products and skills".

Network and interaction approaches (Håkansson *et al*., 1982; Ford (ed.), 1990; Anderson *et al,* 1994) are conceptual models for other relations than the traditional consumer marketing model. The network approach is promising for the understanding of how long-term relations and networks are built up, but limited when it comes to breaking relations. In most cases low economic performance is the main reason (Lilliecreutz, 1998). In the network approach, social factors and non-economic variables are in focus, but economic performance is not an integrated part of the approach (Johanson and Mattsson, 1987). The network and interaction approach is relevant for the indirect effects in a supply chain. OEM's actions are of great importance not only for the next link, the dealers, but also for the final buyers. The dealers' actions affect the OEMs as well as the final buyers.

Mattsson (1998) introduced the notion of overlapping to describe the dynamic process when firms take strategic actions that change the interconnections and interdependencies between different value creating networks. Overlapping can be driven by different forces and is given the name since no actor is in one network only, and the content of the network is constantly evolving.

To summarise, these approaches and theories are not consistent in the sense that they can be freely combined in one framework for the planning and analysis of empirical studies. They offer both competing and complementary tools for the analysis of the focus for our study. There are two major theoretical problems to be solved. Theoretical approaches that are realistic in terms of considering opportunism as a risk and a dynamic force in the development of new products and processes in industrial networks (that also are based on trust and co-operation, Foss and Koch, 1996) is the first issue to solve. This means that there must be performance criteria for the understanding of the efficiency and key financial measures. The other theoretical area to develop further is theories that can explain the dynamics of the whole value chain. For example, why the dramatic changes in the division of work and boundaries of the firms are leading to changes in the competitive situation in terms of market shares and financial performance (Cox, 1996).

4. Analysis of the Driving Forces

In this section we will discuss the forces that are driving the development of sales and distribution. Based on these driving forces we are introducing three scenarios for the sales and distribution that we use for our further analysis.

Driving forces

The main actors in the supply chain are traditionally the OEMs, the first tier suppliers, the dealers and the final consumers. During the last few years a new group of actors has appeared namely the Internet-based intermediaries (new middlemen). Our analysis of the distribution and sales part of the supply chain is taking the driving forces including the new actors and catalysts into account (Figure 3):

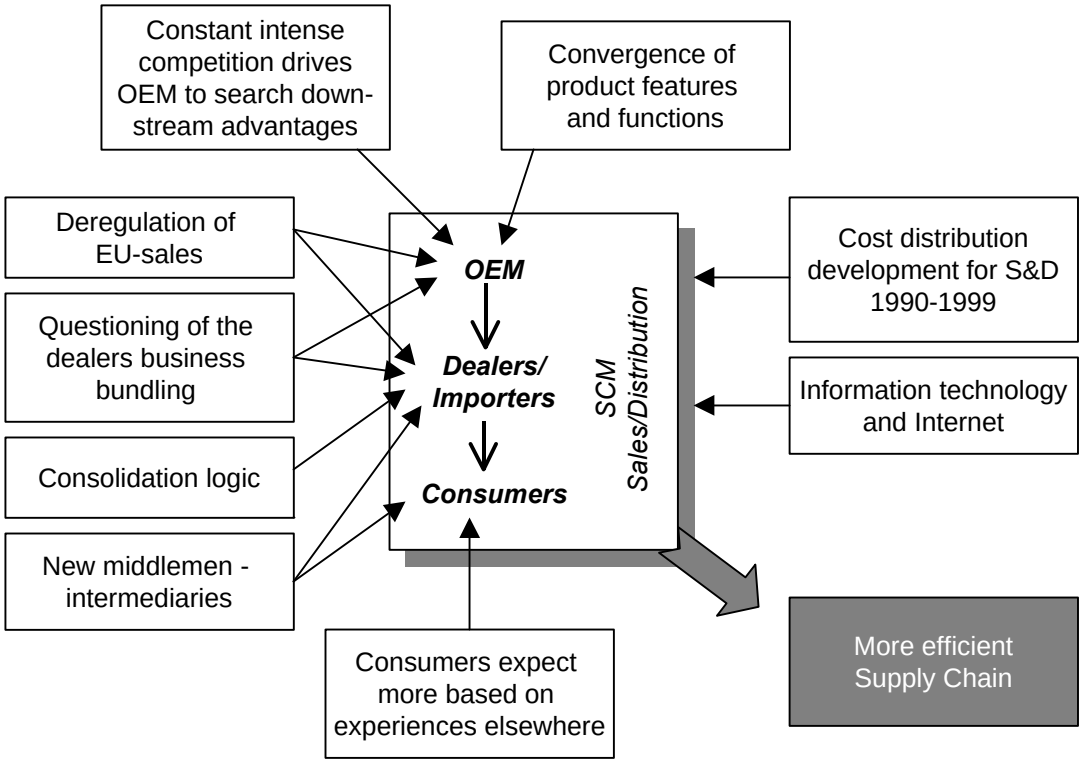

Figure 3 Driving forces and catalysts for change in the S&D of prestige cars

Following Figure 3 we can conclude that the convergence of product features and functions will change competition. In a market with transparent prices, the OEMs' brand management and consumer focused sales process will increase in importance. E.g. Mercedes has already taken steps in this direction in Europe introducing the same price before taxes in all markets.

The incumbent dealership structure with mainly independent dealers, exclusive districts and the high fixed cost of the dealership functions is financially advantageous for the OEMs. During the 1990s the economics of the six different dealership businesses (new cars, used cars, financing and insurance, workshop, service, and miscellaneous) have changed significantly. The bundling of these businesses is a major advantage for the incumbent dealers over the new, IT-based middlemen. Deregulation would challenge the bundling strategy in these businesses.

In the upstream relationships (OEM and first tier suppliers) the satisfaction and the strength of the relationship is built upon very open information exchange e.g. in the product development. This has been recognised by the Internet-based intermediaries that entered the sales and distribution process. During the last decade larger dealer chains spanning larger geographical areas have acquired smaller, family-owned dealers. These "megadealers" are also challenging the OEMs in the S&D system. The consolidation logic have largely been driven by existing

dealers in Europe whereas in US outsiders without dealer history have established dealer chains of up to 400 dealership outlets.

So far neither the new Internet-based middlemen nor the megadealers have been successful. This does not mean that there will be less competition. Of the four elements that are of importance for the dealers: getting the right product in the right place at the right price at the right time, the first three can be influenced by the Internet. The potential for improved performance on various combinations of the three first opens for present and new actors to develop new business models where the use of Internet is one component.

Consumer expectations are constantly evolving. Experiences from buying and owning other capital goods, e.g. computers, are affecting the consumers in their evaluation of the dealers and OEM sales process. Information technology has made information assessable trough all computers with Internet access. This information is not only "selling the product", but it is also comparing its price/performance characteristics with other products in the segment.

Scenarios

Evolving demands from customers and the search for opportunities to develop the product/service offerings in the sales and distribution from manufacturers and dealers have implications for the SCM. In our analysis of the driving forces we have combined these implications in three scenarios that we use for our further analysis of realistic change processes. In principle there are two methods to develop a more efficient system for S&D: economies of scale and economies of scope. This is our starting point for building the scenarios.

Rayport and Sviokla (1994) propose that buyer-seller relationships consist of three basic elements influencing the value proposition – content (the firm's offering), context (how the content is offered), and infrastructure. For our discussion around sales and distribution of cars we have taken these elements to develop three scenarios: *Concentration*, *Segmentation*, and *Specialisation* (Table 1).

Scenario X: Concentration

In this scenario we assume a reduction of the number of dealers by 10-15 per cent alternatively segmenting with main dealers on major markets and sub-dealers on minor markets.

Economies of scale, i.e. selling more cars/dealer with fewer dealers but with present number of OEMs and models is the main objective in this scenario. This alternative is not only a scenario, but also implemented by e.g. PAG/Ford brands Volvo, Jaguar and Land Rover in some countries. The optimisation problem for the OEM is to balance the risk of losing customers with fewer sales outlets against the potential cost reductions. The dealers' situation is the same as for the OEMs if the same firm can reduce the number of sales outlets in a specific geographic area.

For the prospective customers it is reasonable to assume that the more advanced cars, the longer distance between sales outlets could be accepted. The dealer coming to the customer's place could arrange a test-drive. But the service shops must be closer to the customer, which means that the sales outlets in some cases must be geographically separated from the service facilities. Also the service could be segmented in a system where smaller, franchised workshops could be connected to the expensive and advanced electronic control facilities via Intra-

net. Normal maintenance could be distributed and closer to the customer. In case of more complicated repair, there is already a cheap leasing service available.

Table 1 Scenarios

Scenario	Dealership focus	Dealership Content	Dealership Context	Dealership Infrastructure
Scenario X Concentration	Economies of scale	Balancing cost versus customer demand of a full range programme at each location	Separation of sales and service/ repair operations. Activities not only performed at the showroom.	Full range of products available at main dealers only. A number of independent service shops
Scenario Y Segmentation	Economies of scope	Focus on what is requested at each specific geographic market independent of brands' range of products.	Sales and service/ repair one entity. Customers with specific need smoothly transfer to other showrooms.	Major cities, minor cities and rural areas offer different range of products.
Scenario Z Specialisation	Customer preferences	Specialisation based on customer preferences.	Separation of sales and service/repair facilities. Branding not a dealer responsibility.	Specialised on one/two types of cars. A number of independent service shops

Scenario Y: Segmentation

In this scenario we have the same number of dealers as today but divide them into three dealer segments: major cities, minor cities and rural areas. The strategy is to use economies of scope in order to sell more cars/dealer from different OEMs and with different model ranges at each dealership.

For the OEMs this is a major strategic issue. Both in Japan and USA, exclusive franchising contracts are standard between the OEM and the dealer. In EU the Block Exemption is the legal basis for both exclusivity and selectivity. This is now under debate and a deregulation of the exclusivity rules could open for multi-brand dealers. Selectivity criteria rules are not changed in this scenario. For the OEMs multi-brand dealership is considered to be a disadvantage (ACEA, 2001). Their arguments are that the present system is both cost efficient and convenient for the customer.

For the dealers the present system is favourable for those who have the most profitable and efficient outlets. But for others with low profits or a narrow line of models, multi-brand franchising should be of great interest. E.g. BMW dealers might be interested in Volvo wagons because BMW has no full-size model to offer their customers. However, there are considerable costs for the dealer to live up to selectivity standards in the service business. Training

sales force and mechanics to handle new brands is costly and new showroom areas and workshops are capital intensive.

Scenario Z: Specialisation

In this scenario there are a number of multi-brand dealers that are specialising in e.g. 4x4, station wagons or sports cars. For the OEM and the dealers the same arguments apply as in Scenario X plus that special cars are less frequent (except for SUVs in USA). For the customer it is of greater importance to have a concentrated overview of the market in one showroom even if the average distance between such showrooms is longer. In Europe this scenario is only possible after a deregulation of the Bloc Exemption.

The driving forces in a dealership context are summarised in the scenarios. Traditional dealers can manage all scenarios alone or in combination with virtual dealers, the Internet-based middlemen.

Obviously, the scenario method can catch both the business and the legal alternatives for further analysis. Our three scenarios can serve as realistic examples that can be combined into a business model for strategic decisions by dealers and/or manufacturers than are the only three possible ones.

5. Core Relations and Power in Sales and Distribution

From the scenarios we can conclude that the financial power and the knowledge power must be considered for each main actor in the supply chain in evaluating the scenarios. The knowledge power in the process of change in the S&D of prestige cars can be analysed in terms of the resource-based view (Wernerfelt, 1984; 1995), the concepts of core competence (Prahalad and Hamel 1990), and dynamic capabilities (Teece 1998). Together with the outcome of the gap analysis presented in (Brandes and Brehmer, 2000) these aspects should serve as a basis for our conclusions and the development of a theoretical model of the core relations in sales and distribution.

Core Relations

What is behind the concept of core competence in this context? Hard-to-imitate skills, tacit knowledge and the ability to change the market are the basic issues that make a brand specific to the customers. In the prestige car segment in Europe, the leading (in terms of market share) brands are Audi, BMW, Mercedes and Volvo. Those brands have had the ability to create a sustainable (over several decades) image and financial performance. Other competing brands are much smaller (e.g. Infinity, Lexus and Saab).

The four leading brands have unique advantages in complicated technical and commercial systems. The OEMs have technically outstanding knowledge of the products, the competitors and the global market perspective. But the changes since the beginning of the 1990s must be considered in an analysis of the relations in the S&D (as discussed in relation to Figure 2).

Less emphasis on selling and more on the creating of life-long relations should be the expected new strategy that also is a necessary complement to present key customer activities and a potential area for using Internet communications. This is where the dealers' role is growing in importance. The OEMs cannot establish the personal contacts with the prospects

but they can promote and co-ordinate the personal communication. The traditional dealers are experts on personal contacts with the car owners and the prospects. This is one of the dealers' core competencies.

In scenario X the OEM is the dominant actor, who decides about the roles which the dealers have to accept. The number of main outlets will be reduced.

In scenario Y the dialog between OEMs and dealers is shaping the dealership structure. All showrooms will be different even if there will be common features for the identification of the brands.

In scenario Z the dealer is acting as a representative for the customers and consequently the OEM – dealer relationship is weak in this scenario.

Trends in the USA indicate that the number of dealers is decreasing and a deregulation of the franchising system within the EU could lead to a concentration to fewer and financially stronger dealers. The Internet development is working in the same direction. Therefore, each dealership outlet will be more important for the OEM. Our conclusion is that the OEMs will search for a compromise where they can co-ordinate their S&D with dealers that can be competitive enough for the new situation. This makes scenarios X and Y the most likely ones.

In summary, the most important relations in the S&D system are the dealers' relations with the final customer, and second the OEMs' relations with the dealers. These relations, together with the OEMs' relations with their first tier suppliers are the core relations in the supply chain of prestige cars. These relations cannot be broken without serious consequences. Are they fully considered as knowledge capital in the supply chain? Our answer is no.

Firstly, in most supplier relations, the OEMs have an 'arms-length' distance to competing suppliers in order to cut prices. The dealers are traditionally transaction oriented. Selling the next car rather than developing and managing customer relations is the dominating philosophy. But the prestige market has changed. There are not more customers than at least the key customers could be included in a Customer Relations Management, (CRM) – system that is systematically scanning the attitudes for individualised action plans. In the next section we will discuss these issues more in detail.

Personal interaction and information intensity

The balance between personal and impersonal/IT-based communication with the potential buyers is thus of great strategic importance. With a focus upon the buying process and differentiation into low and high richness of personal interaction as well as low and high information intensity different preferable channel outcomes can be observed for the presented scenarios (Figure 4).

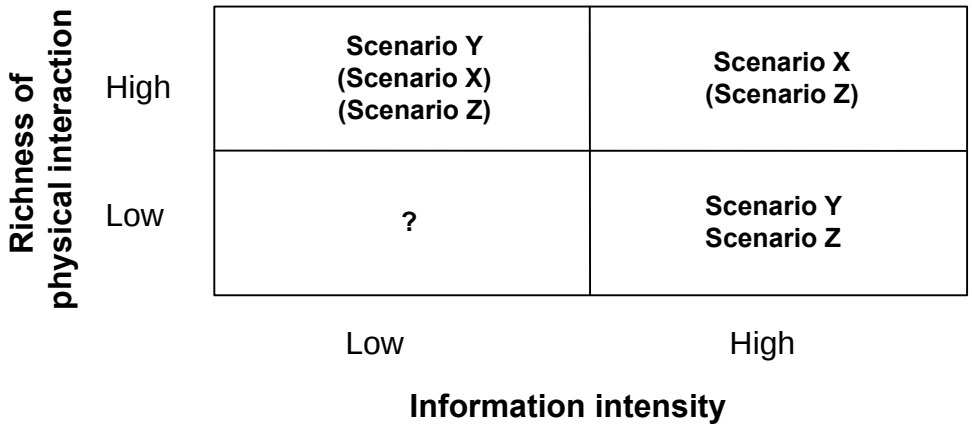

Figure 4 Preferable channel outcomes in the prestige car sales and distribution

In the SE corner with low requirements of personal interaction in the buying process and an information-rich buying process, Scenarios Y and Z combined with an Internet-based sales process, would apply. Experienced buyers, such as fleet operators and some private buyers, which already are well informed, are examples of customers that are located in this corner. About half of the prestige cars are sold to major customers with high discounts and special conditions. The strategic question is which actor is responsible for the Internet-based process and how the other activities are co-ordinated? One model is that the OEM is signing the contract, but the local dealer is taking care of the delivery and after sales service.

In this context, the actor that can deliver the most competitive mix of cost efficiency and service should take care of the distribution. Delivery directly to the customer office or house without any personal contacts is the most cost efficient method. But there are emotional arguments from both the dealers and the customers in favour of the symbolical value of the handshake between the salesman and the buyer.

In this corner the OEM's Internet strategy should support the brand since Internet and traditional advertising are the only ways to influence the buyers and the sales facilities are limited. New methods for building sustainable relations with the customers are necessary in this case.

In the NE corner with high information intensity and high richness of personal interaction in the buying process, the role of Internet is to support the dealers and the existing channel. Scenario X and partly scenario Z would apply in this situation where the high richness of personal interaction is difficult to handle over the web and the customers have a considerable impact on the design of the business model. Compared to the SE corner the car is not seen as a commodity where all information can be communicated to the customer over Internet. The accumulated sales and transaction-oriented experiences created in the customer-dealer communication are the foundation upon which a long-term relationship can be built. The strategic question is whether the dealer or OEMs should be the main Internet actor in this corner since Internet is seen as a vehicle for moving the customers to dealers. In scenario Z it is obvious that the OEM is responsible for building the brand but in scenario X the actors have a joint responsibility.

In the SW and NW corners with low information intensity combined with either high or low personal interaction activity closeness to the customer is essential. In this case multiple channels are necessary. The main issue here is in which way Internet could enhance the customer's

value in sales and distribution. In the gap analysis reported in Brandes and Brehmer (2000) dealers and OEM have different interests in the Internet sales. The SW corner is presently an unlikely combination but not in the future. The low-low corner is a demanding new situation for the industry.

Taken together, the three scenarios show that the prestige car OEMs and dealers need to shift their focus from sales to knowledge sharing, relationship building, and a joint responsibility for the supply chain.

Dynamic Capabilities – A Quasi-Resolution to Conflict

Based on analysis of the information process in the three scenarios, we can draw the conclusion that no single actor has the power to impose or get acceptance for his or her own ideal SCM structure. Even the most powerful actor, the OEM, would be taking too high risks by breaking up or taking conflicts with the established dealers. The only exemption might be a new brand with no or low markets share in a specific geographical market, an example of how scenario Z can be applied. In the other scenarios, X and Y, the knowledge-based relations from the suppliers to the OEM and from the final assembly to the end user should be handled as a joint responsibility. The strategic issue in the S&D is the future role of the dealer, in a more cost efficient system that is also value creating. Figure 5 based on Teece (1998) is explaining our conclusions for the S&D of prestige cars:

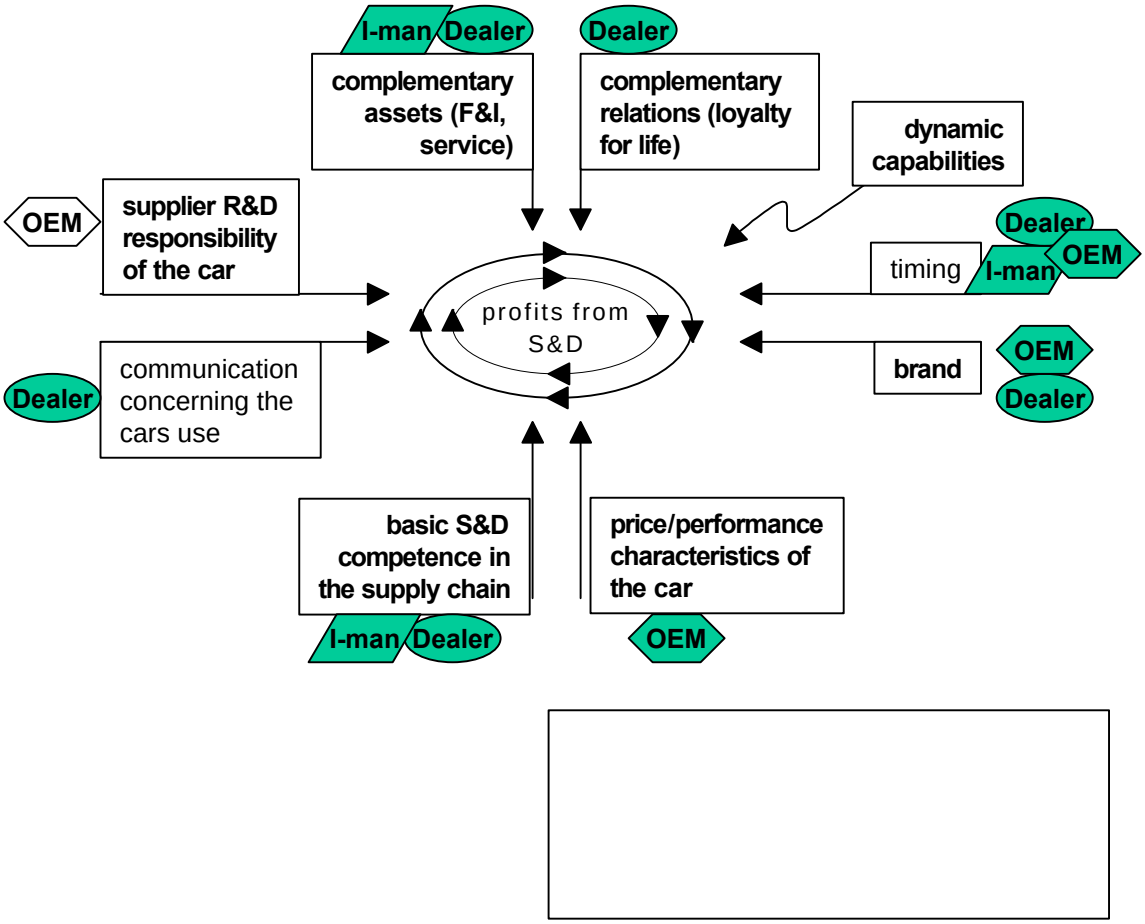

Figure 5 Value creation in car S&D relations and the actors' main functions (adapted from Teece, 1998, p.73)

The actors' main focus is earmarked in Figure 5. OEM and the traditional dealers are focusing all major value-creating functions. The new Internet-based middlemen are trying to apply their knowledge of S&D from other industries to create value by timing and complementary assets. In order to meet the new actors, the traditional dealers have to shift focus from sales of the individual car to the exchange process in order to develop a service/distribution centre of the lifestyles that the brands and customers are representing. Some dealers are already working with this concept.

Price/performance characteristics of the products, complementary assets and technologies are the main sources of value creation behind the knowledge assets in the interorganisational relationship, not only the physical product in itself. In the creation of value personal contacts are necessary for the efficient communication with the prospective buyers. The business is local and there are also emotional arguments to consider. This talks in favour of scenario Y, which captures the local dimension of sales and distribution from the customer's point of view. However, the OEMs and the dealers' different interests in the sales process will never be finally resolved. The concept of "quasi-resolution to conflict" (Cyert and March, 1963) is generative in this context. The negotiations will serve as a learning process in the stepwise development of a more efficient S&D system.

In a customer-driven S&D system a hybrid channel structure is preferable for private owners (except for the fleet owners that already have direct relations with the OEMs). The hybrid channel designs combine offline (personal) and online (Internet) advantages and part of the activities in all three scenarios. This strategy for serving the different customers requires changes in the roles of the upstream actors in order to exploring the potential cost reduction and service improvement in the S&D. A majority of car buyers are using Internet for the collection of information before visiting a dealer.

Obviously the transaction costs must be reduced in a more competitive S&D system for prestige cars. But we do not expect a straightforward lean distribution approach after a lean production process in the automotive industry. OEM-controlled Internet communication and direct logistics from OEM to the final consumer should imply a lean distribution system with significantly lower transaction costs. Why is it not already implemented to a much greater extent if it is a real option?

The reason is that for the creation of dynamic capabilities, a rethinking of the division of functions between the parties in the S&D channel has to be considered. The direct contact-based knowledge about customers changing preferences is the source of profit both for the dealer and OEMs. This knowledge has to be shared through ICT networks giving all parties a sense of the dynamic and complex nature of their customers.

6. The Changing Sales and Distribution Relations – Conclusions

Two major insights emerge from the preceding section. First, customers, OEMs and dealers have different focus, which have to be combined to build a sustainable relationship. The interdependencies shown in Figure 5 influence the patterns of change and the focus on efficiency, enhancement and effectiveness. The scenarios represent different emphasis reflecting a necessity to use multiple channels in the approach towards the customers. Second, knowledge-sharing routines have to build on the relation-specific assets in both the OEM – dealer

relation and the dealer – customer relations. This also indicates that for a creative development, the actors have to restructure the S&D system, not government agencies.

Pattern of change.

Following the three scenarios discussed means that changes in the S&D system will take place stepwise or evolutionary rather than revolutionary. This conclusion does not exclude rapid and rather dramatic changes for individual actors. There will be important differences between countries and regions (urban, rural etc). Internationally, USA is leading the process of change so far and the expected deregulation of EU markets is one catalyst for similar developments in Europe. Japan also has high costs for S&D, which is why we expect changes there as well. In the fastest growing markets for new cars, e.g. China and South America we can expect new business models to be tested.

There is little doubt that there will be considerable differences between very established, strong OEMs that sell many cars per year in a market and those that are selling relatively few new cars. The latter group will be more inclined to use Internet-based middlemen because there are less sunk costs. These actors might be the leaders of the change process to a new and more efficient S&D.

Transaction cost focus is not enough.

In order to increase the supply chain efficiency, OEMs have focused on lean production that means cost cutting and reduction of the balance sheet, increasing the quality and reducing the time of the assembly process. These programmes have led to important effects upstream in the supplier relationship. The development of information and communication networks (ICT networks) has been one of the main enablers for OEMs' achievements. Their focus upon cost, quality and lead-time for the car still is important but only one part of the value creation of the customer. Traditionally, this is the dealer's responsibility. This tradition can be expected to change.

The cost efficiency criterion in the supply chain transactions is based on the minimisation of the transaction cost of an individual player, in this case the OEM. This is not enough for developing a more efficient S&D. If the value of the expected future exchanges and relations is the common goal, also the final customers and the interdependence between the exchange partners have to be taken into account. Efficiency and effectiveness together with a strong brand management are key elements in the S&D value creation. A change from transaction costs to value creating relations also directs our interest to the interaction process between the partners (Zajac and Olsen, 1993). By looking at the process from different actors' perspective new, more competitive models can be identified. New models for value creation must be better adapted to the customer preferences.

Unbundling through ICT networks.

From the OEMs' point of view, Internet has broken the geographical boundaries and their ability to handle each market separately. Transparent prices, competitors that uses generic modules from similar suppliers, and the lack of sensing of the customers changing attitudes and demands are restrictions on OEMs ability to customer adaptation.

One of OEMs' core capabilities has been to unbundle the physical and information flows upstream through ICT networks. In this process the efficiency of the logistic systems has been increased. The present lack of unbundling downstream is due to the traditional S&D channel actor's different focuses. Many dealers are transaction-oriented on selling the car without systematically processing customer preferences back to the OEM. This is an opening for new business models. In this situation the car's cost/quality and brand are the foundation upon which customer values are created during the car ownership.

Core relations

We have defined a core relation as an intentionally long-term, knowledge-based relation between a buyer and a seller who are aiming at close co-operation. Together the parties should be able to take advantages of both being close-to-the-customer in the relatively small and flexible firm and to have access to economies of scale and scope in the large firm.

In the S&D the meaning of core relation is that the OEM cannot come close to the customer without personal contacts via full-service dealers (with all six businesses). To live up to the concept of core relations, OEMs and dealers must develop their communication of knowledge. Especially the OEMs have more to learn about local markets for better product development, brand image building and new media communication. More attention to core relations by all actors should open for expanding their business in good times and to be less vulnerable in hard times.

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