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# **The Evolution of Distribution Chains**

## **- A Study of Change Forces, Knowledge Processing, and Role Distribution in Car Distribution**

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The study presented here is motivated by an interest in distribution chains and change processes. The need to understand the numerous ongoing changes in car distribution gives rise to conducting a study on the evolution of distribution chains on the car market, with focus on change forces, knowledge processing and role distribution.

### **The Car Market**

On the car market, competition has increased significantly during the last decades (see e.g. Scherer, 1996). Many big car markets in e.g. Western Europe and America have stagnated, thus causing overproduction (Affärsvärlden, 1997). As markets mature and competition intensifies, the focus of marketing strategy shifts progressively from acquiring new customers to retaining current ones (Reicheld and Sasser, 1990). This shift reflects both the increasing scarcity of new buyers and the fact that marketers, and firms, derive a variety of important advantages from long-term customers (Maute and Forrester, 1998). These trends make it interesting to study how car producers could maintain and develop competitiveness on a stagnating market. By tradition, the behaviour and performance of the distribution chain and particularly the retailer have been essential to the marketing of cars.

However, the ongoing changes on the car market put pressure on the existing distribution chain regarding distribution costs. Studies indicate that the delivery system of today is not as slimmed as possible (see e.g. Fleischer, 1996). One cause of this might be that other demands than efficiency in distribution are essential to the distribution of cars. Kress (1985) argues that possible improvements in distribution and marketing activities have been largely ignored by vehicle manufacturers. For cars, like for many other products, the buying decision is to a high extent determined by emotional values (Åkerberg, 1998). The brand guides the customer during the buying process to a particular brand, which explains why it is that important for the car producers to stress brands (Arnold, 1992; Dubois and Duquesne, 1995; Kay, 1993; Southgate, 1994; Wileman and Jary, 1997). The retailers are important in this respect, since they by tradition have been the only manufacturer-customer interface. However, the emergence of the

Internet and new means of distribution are now challenging the retailer's dominant role<sup>1</sup> in car distribution.

## **The Challenge of Internet Selling**

An assumption made here is that the retailer will remain an important means of distribution also in the future. This assumption is supported of a number of studies. A study recently carried out by Stjerna (2000) shows that the selling of cars on the Internet has not been very successful. Stjerna compared new car prices on the Internet and at dealerships. In most cases, the customer who visited the dealer received a lower price than the Internet customer. Pettersson (2000) emphasizes that the Internet is primarily used by car buyers for gaining information about products and prices. Few transactions are completed on the Internet, by contrast with the actors' expectations. In a study embracing 7 000 consumers in Europe and the USA, it is concluded that the role of the dealership experience will remain essential (Bursa, 2000). However, Internet selling of cars is characterized as a market in flux, and alternatives to showroom visits are discussed<sup>2</sup>. A study carried out by Hedborg (2000) shows that preferably buyers of expensive and sporty cars use the Internet. EUs competition commissioner Mario Monti has criticized the car industry over its restrictive sales system. He argues that the existing system for distribution does not work to the benefit of consumers and retailers (Hargreaves, 2000; Hellblom, 2000). It is not clear to what extent the Internet will replace the retailer as sales channel. It is clear, however, that the number of retailers is decreasing and this concentration will continue also in the future, which is expected to increase efficiency in distribution (Hellblom, 2000). Brandes and Bremer (2000) argue that new actors, that is competing distribution arrangements, will force the retailer to develop cost-efficiency and customer satisfaction.

## **Change Forces in the Distribution of Cars**

On the car market, a number of forces influence the distribution chain and particularly the retailer. The most important changes that have been identified are described below<sup>3</sup>:

*The expiration of the block exemption means that new channels emerge.* The existing block exemption permits exclusive distribution of cars in that it is a general exemption from the principle of free competition in EC law<sup>4</sup>. Block exemptions are issued for selectivity/exclusivity<sup>5</sup> in car distribution and a number of other areas. The reason is that the EC Commission assesses that sufficient availability and adequate quality for the maintenance, preparation, and servicing of vehicles as well as adequate facilities and trained personnel are

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<sup>1</sup> Here, the customer's/end-user's perspective is taken, power balance issues in the distribution chain are not alluded to.

<sup>2</sup> For instance, track testing days open to the public. In this way, prospective car buyers can drive and experience different models as part of their research process. This type of events could be organized by a collection of local retailers or a multi-franchise retailer group.

<sup>3</sup> The forces proposed here are derived from my earlier research (see e.g. Hallström, 2000), and general trends discussed in the car industry.

<sup>4</sup> For a further explanation of this issue, see e.g. Tongue (1999), *Beyond the Block Exemption II: The Build-up to 2002*, ICDP Europe.

<sup>5</sup> This generally means one dealership in a city area, and a number of dealerships in metro areas. The number is controlled by the manufacturer/the general agent, who issues dealership franchise agreements.

best ensured by exclusive distribution (EC Commission, the BMW Germany case 75/73). The block exemption expires in September 2002 and is expected not to be prolonged. If so, new actors can enter the market and sell cars after the expiration of the block exemption, thus competing with the existing dealerships. Another suggestion is that the EC Commission decides to prolong the block exemption, but modify it substantially. In 1995, the EC Commission submitted the block exemption some changes in order to reflect the more liberal attitude the Commission showed towards the distribution and servicing of cars (Raymundus and Swaak, 1999). It remains an open question whether another step towards free competition within the framework of a block exemption will be taken, or if the EC Commission decides not to prolong the block exemption, which means permitting free competition.

When, and if, the block exemption expires, *the retailer's territorial monopoly will expire* accordingly. This means that new intra-brand competitors might enter the marketplace and increase the competition. To the retailers, this means a power advantage vis-à-vis the manufacturer in that the retailer can easily change its brand representation. The asset specificity in most retail facilities is low, entailing no costly investments for changing brand representation. On the other hand, the increased intra-brand competition at the retail level might weaken the retailer's power. Although it appears reasonable that the emerging multitude of distribution arrangements and the accompanying increased competition at the retail level should put pressure on the retailer, this must not be the case. The prevailing structure, with exclusive distribution, in many cases already entails high competition through the intra-territorial competition among retailers in different market areas.

*The Internet emerges as an important means of communicating the brand*, and leads to increased market transparency. The Internet also emerges as an important information source, not least for customers, and increases the manufacturer's and/or the general agent's communications power. This development means that the customer's primary source of information becomes controlled by the manufacturer/the general agent through the official web site. By tradition the dealership has been the customer's primary information source. The market communication also becomes more global in this process, which makes it harder to establish and maintain different brand images on different markets. Also price differences among countries become harder to maintain (even if they may persist due to up-market car taxes, duties etc.)

*Customers are becoming better educated and more informed*. This puts pressure on the salesman to have knowledge and also to possess the ability to easily find knowledge of interest for the customer – the customers now have the possibility to obtain extensive product knowledge on the Internet.

There is evidence that *the product focus characterized by focus on the products' performance, price, and qualities will be replaced by an experience focus* characterized by brand-specific experiences of exclusivity (if the brand is exclusive), culture, and other characteristics rooted in the brand. Accordingly, an increased interest for and focus on brands implies an increased need for drawing the customer's attention to experiences. This is the primary reason why some manufacturers want to maintain/separate the brand communication through solo franchise dealerships. This strategy is expensive and in conflict with the demand for lower costs in car distribution.

*Retail strategies and conditions in metro, city, and rural areas differ*. The future of retailing in rural areas is questioned, simply because of high costs and diminishing margins, requiring economies of scale in selling and after-market services. Moreover, customers and retailers show lower propensity to change in rural areas. One impediment for implementing – or reacting to – changes in the marketplace is that customers in some areas are reluctant to changes. The conservative customers, which are particularly well-represented in rural areas, want to buy cars

in the way they have always been buying cars, which makes it hard to convince them about the advantages of using new technologies and sales solutions.

*The pace of change at the retail level – impediments and institutionalized behavior.* The retailers show low propensity to change their behavior and way-of-thinking in a lot of instances. This might have important implications in this context since the retailer is an essential link between the manufacturer/the general agent and the end-user. The retailer seems to be less willing to change whereas the manufacturer introduces and initializes changes. It is easier for the manufacturer to initialize changes in the prevailing top-down structures (see e.g. Hallström, 2000). This indicates that retailers in many cases are reactive, at least in rural areas.

The forces described above to a great extent emerge from outside the distribution chain. The study presented here focuses on how these external forces and “chocks” change the distribution chain in terms of internal organisation and structure. There are not only external forces, however, but an interplay between external forces and internal dynamics, e.g. actors’ decision-making.

Events may appear as radical/revolutional in the short run, but prove to be of minor importance in the long run. Therefore, a starting point of analysing changes in car distribution should be to carry out an investigation of how forces exert influence on the distribution chain over time. To accomplish this task, a historical investigation of the development of distribution chains in the last century is proposed, with particular focus on the last decades.

## **Research Questions**

The following questions try to summarize the intended focus of the study.

- How can we understand the evolution and transformation of distribution chains? What are the external and internal forces? Which forces could be characterized as stabilizing and destabilizing respectively?
- How did the actors; manufacturers, middlemen, distributors, and retailers initialise, respond to and handle changes emerging from the environment during the growth and development of car distribution? How have external ‘shocks’ been handled?
- How did the actors create the distribution chain environment and how did their behavior cause changes?
- How can we theoretically understand and explain ongoing and forthcoming changes?

# Outline of the Conceptual Framework

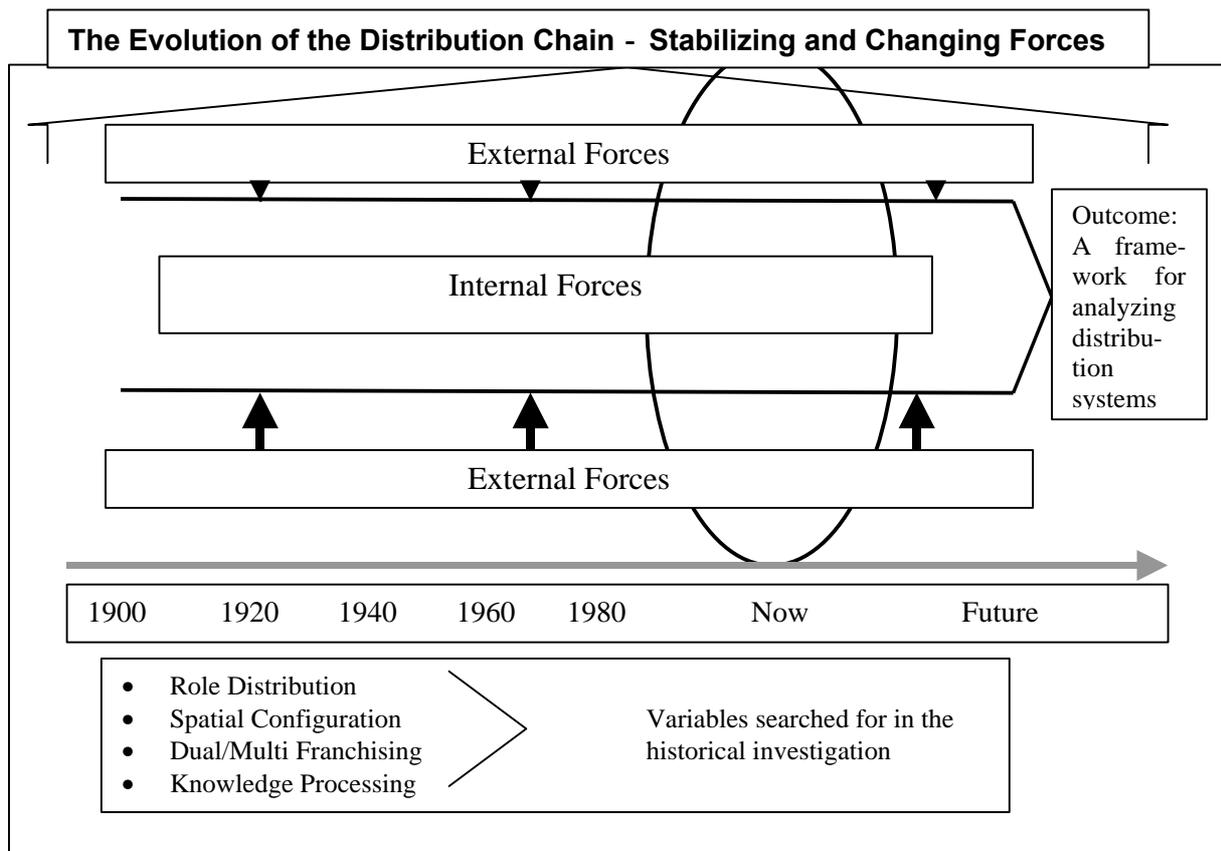


Figure 1. Stabilizing and Change Forces in the Distribution Chain.

The intention in this study is to find patterns over time in the historical material that is analyzed – does the history repeat itself? Can we understand ongoing changes better if we learn about earlier changes or paradigm shifts? If there is a paradigm shift, do we need new tools for understanding what is going on in the industry? A lot of changes are going on in the car industry – some of which might be important. The historical investigation carried out in this study will shed light on these questions and contribute to the understanding of the evolution of distribution chains.

The longitudinal perspective of the research project is visualized in figure 1. In order to understand the evolution of the distribution chain, some specific issues are looked for in the historical investigation:

- *Role Distribution* - a number of issues are performed in the distribution of cars (that is, from the manufacturing to the customer): distribution of the physical product, customer management, knowledge and information mediation (upwards and downwards), proper management of retailers and general agencies in different settings (different markets/countries/areas).
- *Spatial Configuration and Ownership* – the distribution of cars could be organized in a number of ways. Spatial configuration here refers to the retail structure and its development, with respect to the spatial location (clusters with retailers seem to be a common phenomenon) and the size and market area of the retailer. Substantial differences exist between metro, city, and rural areas. In the metro areas, a lot of dealerships are owned by the

manufacturer whereas in rural areas, all dealerships are privately owned, in many cases family businesses.

- *Dual Franchising* - during the last decades, the retailing of cars has been organized as one brand dealers and dual or multiple franchising dealers alternately. Important advantages are associated with both brand separation and dual franchising. The former strengthens the customer's brand-specific experience while the latter implies lower costs.
- *Knowledge and Information Processing* – communicating is essential in the distribution network, and the manufacturers to a great extent rely upon their own and franchised retailers for the supply of market knowledge. It could thus be assumed that the long-term success of car manufacturers would be positively correlated with appropriate knowledge acquisition and processing.

## **Discussion of Perspectives**

Traditional distribution channel theory has its main strength for the analysis of static conditions, but for the study of development processes major deficiencies are found to be connected with 'traditional methods' (Gadde and Håkansson, 1992 in Gadde, 1993). Traditional, deterministic literature on distribution chains is suitable for conceptualizations of activities and processes ongoing within the distribution chain (e.g. Alderson 1957; Stern & El-Ansary, 1977). In this study, this type of literature will be useful for analyzing some aspects of the distribution system, e.g. role distribution. Rationalistic ideas about channel change underpin a lot of models on channel co-ordination and channel change (e.g. Ansoff, 1965; Chandler, 1962; Stern and El-Ansary, 1977<sup>6</sup>).

### **Evolutionary Theory**

The investigation here will start with evolutionary theory, not illogical since this project deals with the evolution of distribution systems. Evolutionary theory views the firm as a bundle of routines containing idiosyncratic knowledge about how the activities should be performed. Competitive advantages are not linked to the individuals' skills, which can be bought in factor markets, but to organizational routines which are not readily tradeable in factor markets. (Nelson and Winter, 1982). Winter (1991) stresses that evolutionary economics place an emphasis on the firm as a productive unit rather than a mode for exchange. It regards the firm as a repository of productive knowledge. Evolutionary theory describes the firm as a historical entity, because its productive knowledge is the result of an endogenous, experience-based learning process. (Knudsen, 1995). If there is a constant production of new knowledge and experience in the firm, as evolutionary theory predicts, there can be no 'optimum' size or level of the firm. Tell (2000) concludes: "*The internal focus put by Penrose on the firm generates a conceptual framework where internal resource/potential service production leads to growth opportunities form the firm, and not external pressures.*" (p. 63). Because of its somewhat vague character, evolutionary theories could not easily and adequately be tested or falsified.

In an evolutionary approach, firms are bounded in their rationality, searching locally and history dependent for new productive solutions and innovations. Tell (2000) summarizes: "*Firm as a productive mode is chosen before markets because firms possess capabilities of performing*

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<sup>6</sup> Also later editions are available. Here, however, the early editions are chosen, because they describe the rationalistic theory underlying much distribution channel literature well.

*tasks through knowledge stored in routines better than a distributed market can.*” (p. 57) Tell (2000) argues that a knowledge-based theory of the firm is in essence evolutionary, and entail an idea of firms as being social collectivities where learning takes place. It is interesting that both the evolutionary theory, proposed by e.g. Nelson and Winter (1982) and resource-based views, including core competence views, claim to build their theories on Penrose’s “The Theory of the Growth of the Firm” (1959). Foss et al (1995) propose that the evolutionary approach has developed the dynamic aspects of Penrose’s theory while the resource-based approach has to a great extent analysed the resources themselves. With regard to the behavioural assumptions, Foss et al argue that “the resource-based approach relies on rationality, while the evolutionary approach bypasses it.” (p. 12)

The evolutionary theory entails a more holistic view of the firm, using a historical perspective where organisations, transactions and capabilities are viewed as a cumulative process. A complex structure of activities or transactions, most of which are dependent upon each other, take place within the firm. It is that totality of activities, not the individual transaction, that are subject to the market test of efficiency. Therefore, the selection mechanism will produce progress, but not an answer to well-specified questions about how activities should be carried out, according to Winter (1988).

Some authors criticise the evolutionary perspective, partly because of its vagueness. Popper (1974) argues that no laws of historical development of biological evolution exist. Popper raises the objection that evolutionary theory is only description, and thus must be considered as a single historical statement of what was a unique historical process. Popper further infers that if evolution cannot predict, then it cannot explain. That should be true, but the ambition here and in most – if not all – other studies using evolutionary theory is not to explain, but to understand or possibly to suggest an explanation. Miller (1978) argues that what matters is not the exact pattern that emerges, but the mechanism that causes the pattern. Wasserman (1981) proposes that evolutionary theory is not characterized by laws, but should be viewed as a hyper-theory that explains classifiable evolutionary phenomena in terms of classifiable theories of ‘evolution-specific mechanisms’. This type of mechanisms is subject to investigation in this study.

In some respects, we need to complement the evolutionary perspective. As Foss et al (1995) point out, little interest in the strategies that individual firms develop on the basis of their knowledge bases is shown. This is partly due to the fact that Nelson and Winter primarily study industries and not the firm-level. Foss et al propose that concepts like adaption, learning, search and path-dependence also primarily relate to the firm-level, making it appropriate to use evolutionary theories also for the firm. Winter (1987 in Knudsen, 1995) admits that evolutionary theories are weak with regard to strategic analysis. He argues that in the theoretical world of evolutionary economics, strategic analysis has no place, *“although of course there is abundant scope for ex post facto discussion of which habits and impulses proved successful. As a response to a need for guidance in the real world, this fatalistic perspective has obvious and severe limitations.”* (p. 162). This should be no obstacle when choosing a perspective for a historical analysis.

## **Different Approaches to the Distribution Chain**

Roth and Klein refer to Van Bertalanffy (1956) who argues that open systems are more appropriate than closed systems to explain living behavior. This view has become universally accepted. It is evident that studies involving behavior of human decision-makers can never have the underlying regularity of the physical sciences. Closed systems, because of their boundaries, allow static absolutes to exist. Retail structures vary across different environments, and even across similar environments. Therefore, it is evident that retail structures do not have the

underlying regularity of closed systems. Retail systems are complex; many environments exist, and humans are able to introduce wide variations of behavior with environments and exert some control over their environments; an outcome is an interaction between introduced variation and environment – therefore, the outcome is conditional on the interaction. (Roth and Klein, 1993) *“Human behaviour is analogous to an open system where no static absolute exists; there is an exchange with the environment.”* (Roth and Klein, 1993, p. 173) Nelson and Winter (1982) emphasize the danger of solely regarding activities internal to the organization as relevant.

Knudsen (1995) argues that there are a number of reasons for preferring an internal to an external perspective. Knudsen refers to Penrose, arguing that according to Penrose’s knowledge-perspective the production set is determined endogenously through the accumulation of knowledge within the firm. This means that *“the firm’s size constraints may change independently of any exogenous changes in its market environment or in its production of any exogenous changes in its market environment or in its production function.”* (p. 208) Penrose’s theory assumes that the managerial resources and the services that they yield determine the limits to firm growth. An important implication of the firm’s internal processes, according to Knudsen, is that *“the firm’s rate of growth will be no faster than the rate at which it releases new services, generates experience and hence accumulates ‘social’ or ‘organizational’ capital.”* (p. 208-209). In evolutionary theory, this problem is described as an attempt to ensure a reasonable balance between the emergence of new variations and selection among them. Knudsen puts it as a question of balance; *“...staking too much on static efficiency will tend to make the firm conservative, in the sense that it will ignore evident possibilities of growth; on the other hand, if the firm stakes too much on dynamic efficiency it will tend to become fragmented and, over time, its knowledge-base will be undermined.”* (p. 209).

By contrast with Knudsen and Foss et al, and possibly also with Winter (see e.g. Winter, 1988), Freeman (1995) argues that an evolutionary account of strategic management does not preclude the manager from an active role. Freeman argues that individuals acting within the firm *“compete and cooperate, devise novel possible solutions to problems, and contend for resources as they support some alternatives and oppose others, and organize to make these things happen.”* (p. 227)

Theories of change in retailing may be classified as deterministic or ecological (Roth and Klein, 1993). The former focus on changes in store type, growth of stores, survival etc. The latter are concerned more with environmental determinants of change and advers selection mechanisms, which, in contrast, have an important stochastic component. According to Roth and Klein, there are three foci of traditional deterministic theories in retailing. First, a major focus on the types of retail stores that exist and how these types change over time. Examples of research are tendencies towards specialization. Second, the growth of stores, for instance the historical tendency for the number of stores to decline relative to population, while the relative number of store selling luxuries tends to increase. The third focus has been on store growth and survival, for instance Hollander’s (1960) well-known Wheel of Retailing. Hollander concludes that while the wheel-of-retailing theory is not valid for all of retailing, it does describe a common pattern in industrialized economies. According to Roth and Klein (1993), traditional, rationalistic theories of retail change emphasize either individual entrepreneurs or the environment as change agents, and present the process as deterministic. These theories are incomplete in the scope of forces that are considered to influence change. They are also inadequate since the contingent nature of change is not considered. *“They do not recognize that more than one path or outcome is possible given any set of conditions. Since deterministic theories do not explain multiple paths or outcomes in all situations they are more akin to historical descriptions, similar to the old biological models of evolution, than they are to theories.”* (Roth and Klein, 1993, p. 170). Roth

and Klein argue that these deterministic theories should be considered as case histories rather than proof.

Alderson's influential work is important for the understanding of system-environment interaction as well as the role of humans in the marketing system. Andersson (1996) proposes that many of the conclusions concerning modern marketing thinking and directions in the changing views on marketing change processes can be collected from and discerned in Alderson's early and comprehensive work: "*Alderson becomes an important link between mechanistic micro economic views on change and the behavioral thinking which puts in focus open morphogenetic systems and human agency.*" (p. 17)

Roth and Klein (1993) argue that many different causes of change have been identified in the retailing literature, but that many of these causes cannot be fully investigated because of the lack of an overall theory. Roth and Klein identify that the common element in the retailing literature is that the causes are all environmental. They stress that change need not just come from the environment, it also can result from the decision-maker. Environmental change thus does not make sense unless it is integrated into an overall theory, taking both internal and external causes and courses into account. Obviously, change does not necessarily follow the same direction in every society. Stochastic, rather than deterministic, approaches, hence, should have greater validity. In retail change, according to Roth and Klein (1993), limits are less severe given humans' abilities to introduce variation into the market. Historical descriptions of the car market, or any other market, underline that the evolution progress through a combination of actors' decisions and environmental conditions. A quotation from Marx (1985) is illuminating here: "*The franchise distribution system is not the product of a grand plan. It is the cumulative result of auto manufacturer responses to specific distribution problems created by changing economic conditions as the industry matured.* (Marx, 1985, p. 472) Winter's (1988) own example – from the automotive industry – illustrates the advantages of an evolutionary approach for this study, or rather the short-comings of other approaches: "*In the evolutionary view – perhaps in contrast to the transaction cost view – the size of a large firm at a particular time is not to be understood as the solution to some organizational problem. General Motors does not sit atop the Fortune 500 because some set of contemporary costs minimization imperatives require a certain chunk of the U.S. economy to be organized in this way. Its position at the top reflects the cumulative effect of a long string of happenings stretching back into the past, among which were the achievement of relatively good solutions into the past to various technological and organizational problems.*" (p. 178)

A purely environmental focus ignores what decisions are made and why. It looks only at the determinants of ultimate success, which depends on the external forces that determine which store types can exist. To explain differences in similar environments one must look at individual decision-makers. "*The individual decision maker perspective has no underlying regularity to change since an individual could make any decision in a given store type. In an individual's view, what is done is at the discretion of the decision maker. Many possible explanations of 'why' something was done may exist. An action may have been selected on a whim, based on the flip of a coin or follow an intensive problem-solving process. 'Why' the decision was made will not determine whether it will be successful, since success depends on the existing retail structure. (and the decision-maker. My remark) The best decision makers can do is to understand the existing structure's casual forces. Such an understanding will, it is hoped, increase the probability of success, as the casual forces become better understood by the decision maker.*" (Roth and Klein, p. 171). At the very least, it takes time for people to communicate with each other, arrive at a common understanding of issues, consider alternatives and pick up a strategy that is intended to be effective. The casual forces – mentioned above by Roth and Klein – are at the heart of this research project. From a theoretical point of view,

research on the theoretical approach proposed here might support theory development in the area of change processes in distribution systems. It can also be motivated by its highly practical relevance – actors at different stages in distribution chains should pay attention to the structure’s casual forces. *“It is at the individual level that issues of maximization versus satisficing, multiple goals and different values are relevant, since these are defined only for the decision maker. Terms such as sub-optimal outcomes, lack of information and behavioural goals imply either that optimal economic goals are sought, but because of weaknesses of the decision maker they are not attained, or that a very wide range of outcomes exist because people have non-economic goals.”* (Roth and Klein, p. 171-172) This is very obvious considering research on SMEs, establishing that even if the companies “should” expand or if they “should” engage more in marketing because of the market potential they do not, because the owner is in most cases the only or dominant decision-maker does not feel comfortable with what he feels means losing control, e.g. recruiting marketing competence or borrowing capital. (see e.g. Hallström and Samuelson, 1997) Most private-owned dealerships are SMEs and could therefore be expected to behave as SMEs in these respects.

Roth and Klein (1993) conclude that theories based solely on either individual behaviour or environmental points of view are too simplistic as explanations for change. What is required is that both aspects be included in a theory.

### **Stability and Change in Distribution Channels**

Gadde (1993) stresses the lack of focus on the processes that engender stability, and emphasizes that distribution channels are characterized by some kind of underlying stability. A consequence of the underlying stability is that distribution channels are considered slow to adapt to new situations and only seldom change their behavior in accordance with new conditions. Studies from the 80s and 90s conclude that the role of franchised dealerships has been relatively unchanged despite higher industry volumes, and concentration in manufacturing and retailing, implying a steady decrease in the total number of dealerships (see for instance Ferron and Kelderman, 1984; Diekmann, 1985). Gadde argues that these characteristics of car distribution casts doubts on the performance of distribution.

Gadde (1993) mentions a number of studies where dramatic changes have been studied, and were the authors conclude that the basic characteristic is stability. The point that Gadde makes here is important – if channel evolution is only represented by such major changes, which the authors emphasize, it is obvious that the conclusion in many cases would be that the basic characteristic is stability. Gadde stresses that all changes are initiated by actors – this is a qualified truth. If so, a deep discussion of intended and realized changes should be essential, since a lot of things happen – within and outside a network – beyond actors’ control and intentions. It is probably, like many other conclusions, a matter of what one is looking for and which perspective is used.<sup>7</sup>

The point made by Gadde, that if channel evolution is only represented by major changes the conclusion in many cases would be that the basic characteristic is stability, is also stressed by Pettigrew: *“As with so many other areas in the social sciences the empirical findings and theoretical developments in the field of organizational change are method-bound. For as long as we continue to conduct research on change which is ahistorical, acontextual, and aprocessual which continues to treat change programme as the unit of analysis and regard change as an episode divorced from the immediate and more distant context in which it is*

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<sup>7</sup> See also the discussion about realized and intended strategies, with reference to Mintzberg, 1991, below.

*embedded, then we will continue to develop inadequate descriptive theories of change which are ill-composed guides for action.*” (Pettigrew, 1985, p. 15)

### **Path Dependency – History does Matter**

A number of authors stress that firms and individuals do not learn from information available in their environment only, but more often from interaction among themselves and previous experience. (e.g. Levitt and March, 1988; Penrose, 1959; Tell 1997, 2000). The theory of path-dependence has emerged in the technological literature. These theories, like e.g. knowledge-based theories, are evolutionary in the sense that they are founded on that history does matter. Sequences of events are viewed as cumulative, implying a historical dimension.

Lundgren (1991) emphasises that dynamic processes are path-dependent which necessitates a historical perspective. *“Current events cannot be fully understood without knowledge of how they have been shaped by past events.”* (p. 71) March (1981) emphasises that changes in organisations depend on a few stable processes. *“Theories of change emphasize either the stability of the processes or the changes they produce, but a serious understanding of organizations requires attention to both.”* (p. 563)

According to Tell (2000), certain processes that have been empirically observed seem to show evidence that the best technology is not always chosen, as would have been expected from more traditional microeconomic foundations. Path-dependency suggests that an early choice upon a technological solution will have a “locking in” effect on further developments of technology. Historical decisions on technology will thus matter for periods further ahead in the future. Path-dependency is a process of localized learning and technological change, where agents do not necessarily end up with the optimal technological solution. Wade (1995) denominate this phenomenon technological bandwagons, and exemplifies with the video cassette standard – the Beta system was considered superior, but the predominant VHS system was a technological bandwagon<sup>8</sup>, which could not be stopped.

Stern and El-Ansary (1977) advocate a ‘historical’ perspective: *“...no attempt was made to generalize about these movements or to explain them in the context of theories of institutional change. However, such an explanation is highly desirable, especially since the past is often prologue for the future. It is not at all unlikely that certain elements of distributive history will repeat themselves; therefore, it is important to abstract from what has been in order to predict what is probable.”* (p. 218-219).

The historical investigation carried out in this research project aims at understanding rather than a partial analysis, thus requiring an approach taking both stabilising and change forces into account. The point made here is that change and stability are inseparable. March (1981) argues: *“Most change in organizations results neither from extraordinary organizational processes or forces, nor from uncommon imagination, persistence or skill, but from relatively stable, routine processes that relate organizations to their environments.”* (p. 564)

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<sup>8</sup> The reason for the VHS system’s superiority on the market was that Matsushita freely licensed out its technology to vendors, while Sony kept its Beta system proprietary. Cf. The Microsoft’s PC system and Apple’s Macintosh system.

## Framework Proposed For this Study

Both forces external and internal to the distribution system might be origins of change. Both complementary and contradictory forces are at work. The distribution system is here perceived as an always changing network or system of relationships and bonds between actors, groups, organisations and groups of organisation. Tension is inherent in the system, e.g. between the manufacturer and retailers because of their different goals and world perceptions (Hallström, 2000; Wittreich, 1962).

The following statement concludes the view held here: The environment determines the boundaries of survival, but individual decision-makers determine, e.g. which outlets are introduced, and to some extent the performance. Variation thus ultimately to a great extent depends on the decision-maker. *“Unlike the ecology of animal populations, where the source of variation is a random factor such as gene mutation, humans have some ability to predict the outcome of variations and can therefore plan variations.”* (Roth and Klein, p. 179) Roth and Klein (1993) suggest that: *“Human behaviour is analogous to an open system where no static absolute exists; there is an exchange with the environment... Retailing is a form of business activity that is analogous to animal ecology due to its fundamental dependence on the spatial nature of its demand and competitive interaction within a defined environment.”* (Roth and Klein, 1993, p. 173). Using the perspective suggested by Roth and Klein, a model of the process of distribution channel change may be developed, taking actors’ intentions and controllability into account. The outcome of this process at a point in time (i.e. any given distribution structure) is postulated to be a function of past behaviour (i.e. managerial decisions) and of the environment. The environment is assumed to be beyond the control of individual decision-makers, but may be influenced by the collective behaviour of all actors<sup>9</sup>. The environment provides a general constraint on the survival of retailers and intermediaries. Decision-making is another constraint, according to the discussion above. Retailers in the framework here represent open subsystems that require some level of input, or resources, to survive. These inputs are obtained through the process of exchange where a level of output (sales) from each retail outlet is required to receive some level of input. The ability to obtain input at a level of output depends on the retailer’s ability relative to competitors seeking the same input. This ability is also partly controllable by the decision-maker. The environment is here defined as those factors and conditions over which an individual decision-maker has no direct influence, e.g. technology, income level, consumers’ need preferences for goods.

In this study, reality is not viewed as a steady state, but as a dynamic process. Society is not regarded as an object but as a network of relations characterised by harmony, tension, conflict and co-operation. Inspired by Sztompka’s (1993) view, agents construct their reality and create change within given structural conditions.

Alderson (1957) introduced the organised behavior system, leaving behind earlier conceptualisations of atomistic and mechanistic relationships between actors in marketing systems. In the early marketing channel literature, arguments and explanations for the dynamic organisation of the marketing process were in many parts done without inclusion of non-economic behaviour. A number of characteristics of Alderson’s theory makes his model useful in this study, within an evolutionary framework:

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<sup>9</sup> Here, it might be appropriate to distinguish between macroenvironment and microenvironment, the former including e.g. technology and demography, the latter including e.g. competitors, customers and suppliers. The microenvironment is to some extent controllable by the focal actor.

1. The marketing system is conceptualised as an open, organised behaviour system, which is in constant and continuous change.
2. The processual, historical perspective on the dynamic systems is elucidated.
3. It is recognised that marketing systems and the exchange taking place are intimately connected to technology and technological change.
4. The heterogeneous and constantly changing character of markets is considered.

To sum up, the ambition is to gain understanding of the dynamics that force through changes. These forces might be stabilizing or changing, and come from outside the distribution chain or from inside.

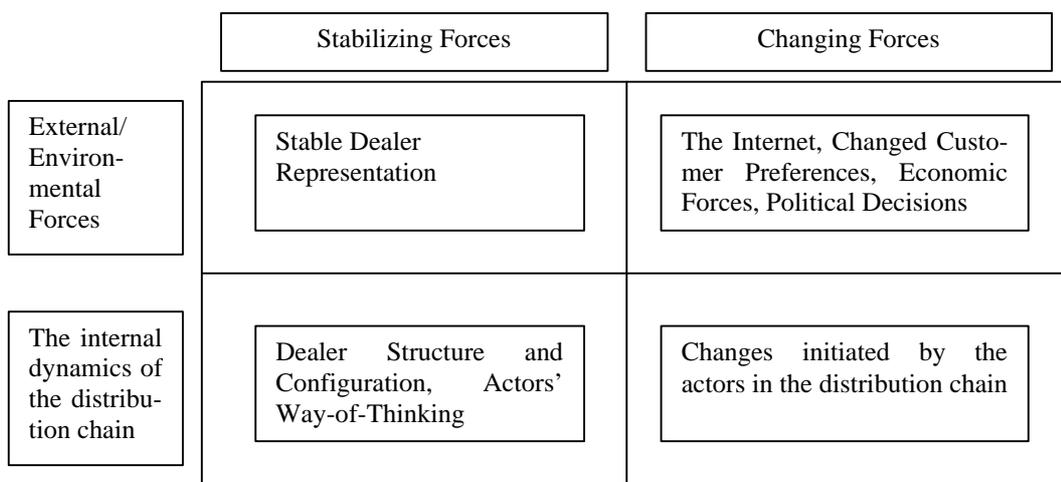


Figure 2. A Framework for the Classification of Forces and Changes in Distribution Chains.

Figure 2 provides a general framework for the classification of forces in distribution chains, exemplified with potential forces in car distribution.

In this study, the distribution system is the primary unit of analysis. What happens at the distribution system level is a result of what is happening in the environment and within the distribution system. Some decisions that affect the performance and development of the distribution chain are intended whereas some or not – perhaps one another dimension should be added to the figure above. Mintzberg (1991) discusses intended strategies, conscious strategies, and emerging strategies, resulting in a realized strategy that differs from the intended one. This taxonomy seems to be highly relevant here – not least since the goals of manufacturers and retailers differ substantially (Hallström, 2000; Wittreich, 1962)

## Methodology

Sweden is the main case in the empirical study. Australia, Germany, the US<sup>10</sup>, and Spain will be treated as cases for comparison. The choice of countries was made according to the following criteria. Sufficient relevant data should be available. A broad selection of countries and markets

<sup>10</sup> At present, it is not clear whether the US or UK will be chosen. A number of contacts are established with appropriate universities in the two countries.

was intended, including the US and Germany, which are considered forerunners with respect to the development of new sales, marketing, and distribution technologies, and Australia, a remote market characterized by some slowness with regard to the adoption of these new technologies.

- *Sweden*: Sweden is the native country of the researcher, which makes it convenient as first country of study. Access to relevant data is to some extent secured by university and industry contacts.
- *The US*: The US is – in the literature as well as by industry analysts and people working in industry – considered a forerunner in the field of car distribution. Accordingly, it should be highly relevant to analyze the evolution of distribution chains in the US. It seems like new distribution and selling techniques are in a lot of cases first implemented and utilized in the US.
- *Germany*: Germany is Europe's leading country in car manufacturing and the competition is considered high. Through the power of the numerous important German car producers, changes in car distribution is often first implemented in Germany, e.g. manufacturer-owned outlets.
- *Spain*: Spain has experienced high economic growth in the last 20 years, especially during the 90s. The fast pace and the EC membership makes it interesting to compare the evolution of distribution chains in this country, characterized by a car culture that differs substantially from that in for instance Germany and Sweden (see Montenegro, 2001).
- *Australia*: Australia is in a number of respects a market very different from Europe and the US. It is extremely urbanized (92 percent - källa) which has important implications for sales and after-market services, primarily in rural areas but also in city and metro areas. This is particularly interesting since Australia's population density is extremely low (2 citizens per km<sup>2</sup>).

The historical investigation together with the collection and analysis of primary and secondary data (see above) constitute the foundation of an analysis of the evolution of distribution networks. An extensive literature study embracing the areas outlined above will be carried out.

A qualitative approach has been chosen, aiming at gaining a profound understanding of the context. In-depth interviews and a qualitative reading of secondary data sources are the cornerstones of the empirical part. Interviewees with great experience of the industry are preferred.

### **Accomplishment and Time Table/Plan of Action**

The project outlined here consists of two parts. First, an exposition of the history and evolution of car distribution and its organization during the 20<sup>th</sup> century, focusing on the evolution of the configuration of distribution networks, ownership, role distribution, solo/dual/multi franchising, and knowledge systems. This part is important for the understanding of the evolution of distribution chains, and will be accomplished through an extensive collection of primary and secondary data, including interviews with experienced people from the car industry. Secondly, a collection of primary data through interviews with experienced manufacturer representatives, industry specialists, general agents/middlemen, and retailers. This will be complemented by industry data. Here, a variation is eligible if not necessary to the understanding of distribution chains in different contexts (see methodological considerations above). These two steps will

constitute part of the doctoral dissertation. The doctoral dissertation will be defended in early 2003.

*September – December 2001:* Collection of empirical data in Sweden and Germany.

*January 2002 – April 2002:* “Semester” abroad in the US. The aim is to gain experience of scientific work at a high-class university in the US, including:

- Working with the research project
- Attending seminars and doctorate courses
- Presenting seminars on the research topics
- Collecting data including secondary data on the world car industry and primary data through interviews with people working in industry and academics. The data collected will constitute the basis of a case in the doctoral dissertation (see methodological considerations below)

*May 2002 – August 2002:* Work with the doctoral dissertation.

*September 2002:* Collection of empirical data in Spain.

*October – November 2002:* Continued work with the dissertation.

*December 2002:* First seminar

*February 2003:* Defending the doctoral dissertation.

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