IT Threatening Old Relations and Creating New Ones - The Case of Prestige Car Sales and Distribution -

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Abstract
Internet based new middlemen are attacking the traditional Sales & Distribution in the prestige car segment. Compared to earlier links in the supply chain, e.g. close purchasing and product development, (cross-functional integration, outsourcing and partnership) S&D have changed very little during the last decade.

The analysis of the S&D function is complicated. There are several independent actors and very strong links in the established system. The new middlemen are a common threat to OEMs and dealers that should share the same or a decreasing margin with the newcomers. The only chance for them is to deliver a higher value to the final customer.

Our managerial conclusion is that we can expect a stepwise change where the OEMs and the dealers will try to keep the new middlemen out by developing a strong Internet-based communication with the final customer (hybrid system). However, there will be some small OEMs that will try the new middlemen in new markets as a transaction cost efficient channel. Those OEMs have little to lose with the traditional dealers. Also, the expected deregulation of EC could put more competitive pressure on the European system to develop in the same direction as the US system that is leading in the process of change.

Theoretically the challenge is to decrease the transaction costs at the same time as the creation of customer value is to be focused. We propose a combination of learning processes in networks (Håkansson, 1993) and interorganisational competence and knowledge development driven by dynamic capabilities (Teece, 1998).

Introduction
In our studies of supply chain management (SCM), we have found dramatic changes in prime-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 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 like 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 there are very close and long-term relations developing into partnership relations (Brandes *et al,* 1999). We suggest a new concept 'core relations'[58] for these processes that are of great strategic importance.

During the 1990s there has been a remarkable increase in productivity in the product development, purchasing and production functions in the industries mentioned. However, there is not any corresponding development in sales and distribution (S&D).

The cost distribution in the supply chain is therefore leading to relatively higher cost for S&D compared to the other main function product development, purchasing and production:

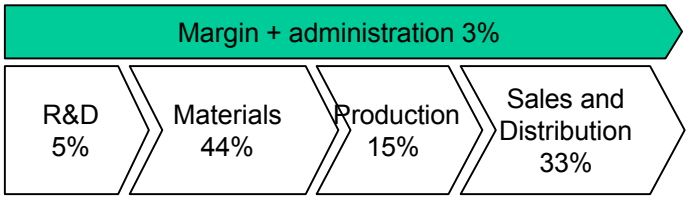


Figure 1 Cost distribution in the supply chain 1997 (A.T. Kearney, 1997)

Therefore the pressure on the S&D function is now very high for increasing productivity. This is at the same time as E-commerce is opening for entrepreneurs to come in with 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 [59]or from IT applications for enhancing customer satisfaction[60].

For prestige cars in US the S&D accounts for 30 per cent of the total cost of each sold car in 1999. This fact has been recognised as next target area for improvements. Both the OEMs, dealers and new actors, without any tradition in car distribution, have taken the first steps in this direction.

New Core Relations Strategic Issues

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 operational activities. Cross-

[58] A core relation is an intentionally long term relation between a buyer and a supplier who are aiming at close cooperation from the early phase in the product development where parallel processes and access to scale economies should lead to world class performance for both parties in the long run. The core relation is also built for product life time deliveries with benchmarking and other control measures for the buyer' assessment of the seller's performance.

[59] Examples from US are CarsDirect.com founded by Michael Dell how used experiences from computer manufacturing 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 AutoNation

[60] priceline.com, CarPoint.com

functional and organisational integration is increasing. The complexity of the system is growing (Figure 2):

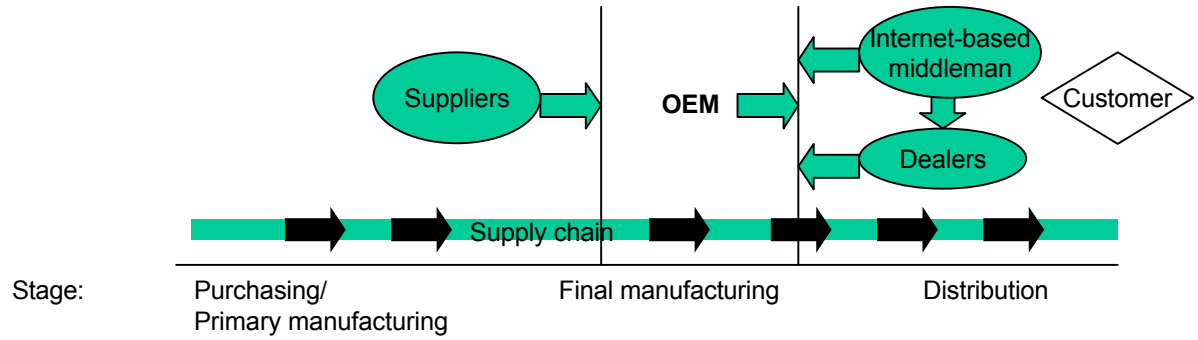


Figure 2 OEMs' strategic position in the supply chain

In the S&D function, the new Internet-based middlemen's are creating a new competitive situation. They are attacking both the OEMs' and the dealers' margins in their ambition to establishing a unique position. Will these common threats bring the OEMs and the dealers closer together? Will the OEMs invest more in IT together with the dealers 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 channels to the final buyers?

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.

Purpose of this study

Our purpose is to analyse the driving forces affecting the S&D and increase the understanding of the supply chain management development in delivering customer satisfaction.

We are focusing on the prestige car segment of the automotive industry. The reason is that 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). As a consequence new actors will have the possibility to sell new cars without any legal restrictions. The importer's ability to control the new means of S&D that emerge will be low.

The starting point for our studies is an overview of previous research of importance for our purpose. We have the ambition to draw some theoretical conclusions.

Methods and approach

Our method is in the first step a strategic analysis of the major types of power in the OEM system, namely the financial power and the knowledge power. A gap analysis will show the key actors' rational strategies and their capital power in the supply chain. An analysis of the core competence is the basis for a discussion of knowledge power in the S&D system.

These steps will be the starting points for an empirical study of the dealer's role. This study will be published in a separate article. Taken together these steps should open for the strategic conclusions for the different actors.

Previous research

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 which one of the most competitive of the major, mature industries, competitiveness and performance are key concepts for the understanding of the changes.

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 is of great importance for the understanding of competitive power.

Teece *et al* (1997) have made an interesting contribution by suggesting the concept of 'dynamic capabilities':

> "the ability to sense and the 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 organizational form, and part lies with the ability to strategize". (Teece, 1998 p 72).

First, this reference opens for a deeper analysis of the recent development in the automotive industry with partnership or core relations that leads to relations as if the buying and selling firms have created a partial and virtual reality merger without any ownership relations.

Second, 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 the economic performance is the main reason (Lilliecreutz, 1998). In the network approach social factors and non-economic variable are in focus, but economic performance is not an integrated part of the approach.

In this context, the network and interaction approach is relevant for the indirect effects in a supply chain. OEMs actions are of great importance not only for next link, the dealers, but also for the final buyers. The dealers' actions are affecting the OEMs as well as the final buyers. And the new middlemen are trying to find a position where they can change the rules of the game for the four other actors mentioned.

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. First, 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 cooperation, Foss and Koch, 1996). This means that there must be performance criteria for the understanding of the efficiency and key financial measures. Second, theories that can explain the dynamics of the whole value chain i.e. 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).

Analysis of the driving forces and basis for conclusions

Driving forces

The major 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):

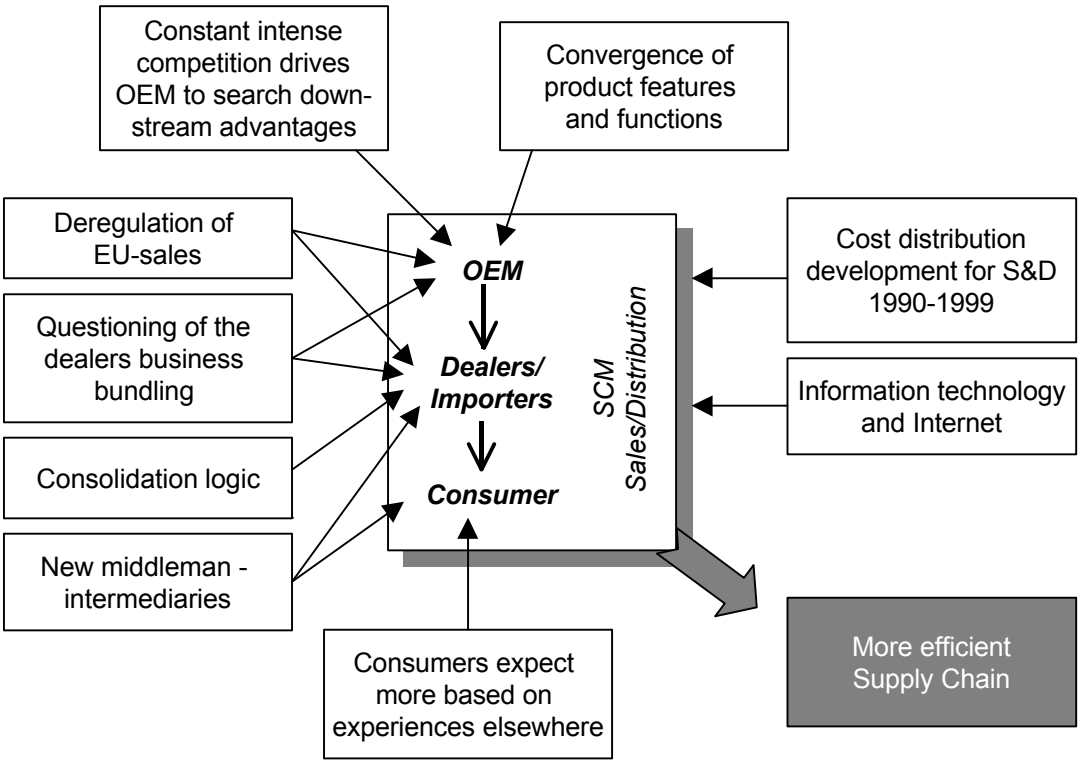


Figure 3 Driving forces and catalysts for change in the S&D of prestige cars

OEM's interest in the S&D part of the supply chain are related to a belief that a more profiled sales process will increase the profit in border free regions (i.e. EU), sustain transparent and fixed prices and provide direct access to the customers. Another important aspect is the convergence of product features and functions between different brands. First tier suppliers are taking a larger responsibility of developing and producing modules what can be used in a slightly modified version in another product. For OEMs the product offering must be included in a package of services that can create loyal customer during the ownership of the present car as well as future cars.

The incumbent dealership structure with mainly independent dealers, exclusive districts and high fixed cost has been a financial advantage for the OEMs. During the 1990's the economics of the six different dealership businesses (new cars, used cars, financing and insurance, workshop, service, and assessors) have changed significantly. The new middlemen have challenged the bundled offer of these businesses. In some countries OEM quality programs have rarely impacted the dealers.

In the upstream relationships (OEM and first tier suppliers) service and satisfaction 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 any family owned dealers have been acquired by larger dealer chains spanning larger geographical areas. These "megadealers" are 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.

Consumer expectations are constantly evolving. Experiences from buying and owning other products drive the individuals 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", it is also comparing its price/performance characteristics with other products in similar segments.

Gap Analysis

A gap analysis can open for the understanding of the financial power and the knowledge power of the main actors in the S&D system. The actors have been identified in the introduction, but we divided the consumers into major buyers (fleet owners) and private (family) buyers. We have identified the following strategic functions in the S&D part of the supply chain:

- Sales activities as personal and IT respectively
- Promotion activities as personal and IT respectively
- Logistics (car delivery from factory to final consumer)
- Service and parts
- Financial and Insurance
- Secondary cars
- Bundling/unbundling of offer to the final buyer

Functions	**New cars sales**		**Promotion**		**Logistics**	**Service and Parts**	**Financial and Insurance**	**Secondary cars**	**Bundling/ Unbundling of functions**
Actors	Personal	IT	Personal	IT					
OEM		X		X	3rd party	Dealer's control	Dealer's control		Bundling
Dealer	X	X	X	X	Dealer's control	Dealer's control	Dealer's control	Dealer's control	Bundling
New middelman		X		X	3rd party	3rd party	3rd party	3rd party	Unbundling
Major buyer (fleet operator)		X		X	3rd party	3rd party	3rd party		Unbundling
Private buyer (family)	X	X	X	X	Dealer's control or 3rd party	Dealer's control or 3rd party	Dealer's control or 3rd party		?

Figure 4 Matrix for Gap Analysis (X = Actor's preferred control of function)

The OEM's ideal system implies direct (Internet based) transactions, if this can be done with the same competitive power in terms of market share. This is the "Dell model" which is the major innovation in the S&D of personal computers (Aronsson, 2000). Heavy advertising is supporting the direct/IT channel. All promotion activities like the introduction and presentation of new models should be done without any dealers involved. Task forces and other short-term personal contacts with potential customers are alternatives to permanent sales representatives during the introduction. The expected EU deregulation of the new car sales organisation will open for new initiatives from 2002.

The logistics can be arranged separately (e.g. by Third Party Providers) like inbound logistics of components to final assembly and also for many other capital goods. However, the new car

delivery to the final buyer, traditionally has a high symbolic and business creating trust and value for the traditional dealers' service market (also called the after market).

For OEMs and dealers are finance and insurance (F&I) and spare parts the most profitable businesses among their present offers and therefore they want to keep control over them towards the consumers even if they don't produce the services themselves.

The second hand market is not controlled by the OEMs but it is a strategic issue in their relations with the dealers and the final buyers. It is a local market that requires local actors for the evaluation, and deeper understanding of the local business.

The major share of the service and parts business is also a local market that is changing. With less frequent service inspections (for most users only one time a year or every 20000 kilometres or even more) and more reliable cars the number of fully equipped service stations are decreasing. Used parts can be found on the Internet. Mail order and other channels are distributing highly frequent new parts.

OEMs have no interest in new middlemen coming into the market. They should only cut the margins that have been shared between OEMs and their exclusive dealers. The new middlemen will also increase competition by offering alternative (competing) brands.

The dealers' ideal system is that they can control the unbundled offer together with the OEMs, i.e. near status quo. They have a common interest with OEMs to use IT for cost reduction and more efficient communication with the market. They also have interest in a reduction of investments in the service facilities. Together with the OEMs they have no interest in new middlemen coming into the market.

The most powerful buyers are the fleet owners. The have full information of the market and therefore the want to do direct business with the OEMs. IT support is positive for them but personal sales contacts are less important. If bundling is leading to the lowest total cost the are of interested, otherwise they can find alternatives.

The private (family) car customer is more dependent on personal contacts with sellers for the comparison of alternative brands and models even if IT makes the interaction between the customer and the seller more on a equal basis. The most experienced buyers can be expected to accept direct Internet deals if there is an extra bonus for it. With such a bonus, logistics can be accepted without any dealers or new middlemen involved (direct delivery from OEMs facilities to the customer). However, the S&D, and especially the dealers' relations to their family customers, have been very conservative and there is obviously also emotional or non-rational behaviour to consider.

A prestige car is by definition a part of the owner's image. In terms of personal image and expression, prestige cars are more like yachts than white goods (freezers/refrigerators). Yachts are often given female names by their male owners in order to emphasise the personal relation between the owner and the boat. The owner of a prestige car does not emotionally load the vehicle by giving it personal names.

But there are spectacular and even emotional arrangements and a lot of publicity when new prestige car models are being introduced. These events are arranged like religious ceremonies. Standardised capital goods are seldom emotionally loaded than prestige cars and

yachts. These characteristics of the products and markets are indicating that dramatic and quick change in the relations between the dealers and their customers will require strong economic incentives for the customers.

To summarise the gap analysis:

- OEMs and traditional dealers are both under attack from the new middlemen,
- OEMs are the most powerful actors in terms of capital power and knowledge power except for the local markets and personal contacts with the final buyers where the traditional dealers have their unique competence
- OEMs and traditional dealers are expected to develop a common IT strategy in order to prevent the new middlemen to taking the lead on direct Internet based communication with the final buyers and,
- in the Internet world, life long relationship with customers will be more important than selling as an isolated function.

Core Competencies and Dynamic Capabilities

From the gap analysis we can conclude that there is a financial power and a knowledge power to consider for each main actor in the supply chain. 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 core capabilities (Teece 1998). Together with the outcome of the gap analysis these aspects should serve as a basis for our conclusions and planning of empirical studies.

What is behind the concept of core competence in this context? Hard-to-imitate skills, tacit knowledge and the ability to changing the market are the basic issues that make a brand specific to the customers. In the prestige car segment 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 either smaller (e.g. Infinity and Lexus) or not so stable (e.g. Saab) in these respects.

Behind the four leading brands are complicated technical and commercial systems. The OEMs have technically the outstanding knowledge of the products, the competitors and the global market perspective. But the changes going on 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).

The first tiers (those suppliers that deliver directly to the OEM) have been fewer and fewer in the 1990s (Brandes et al, 1999). After the outsourcing wave, most first tiers are independent, they have their own product development and competence to pre-assemble parts from other suppliers to subsystems, are controlling the relations to lower tier levels, and deliver to several competing firms (e.g. Autoliv to Volvo, BMW and Mercedes).

In the short term there are obvious advantages for the OEMs to have a very limited number (Volvo Car about 200 in 1999 compared to about 800 in 1990) of direct suppliers. The OEMs are getting the advantages of scale economics and parallel and joint processes in the product development.

In the long term even the prestige car OEMs will offer the same technology from the same set of suppliers. In the ongoing process of restructuring, there will be fewer owners/OEMs that

control several brands e.g. Ford/Volvo/Jaguar/Lincoln that are building many models of the same few platforms. This development should facilitate for the final consumer to change brand and making it more difficult for the OEMs to profile the models.

Less emphasis on selling and more on the creating of life long relationships should be the expected new strategy that is also a necessary complement to the unpersonal 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.

In the deregulation of the dealership in EU and also as a consequence of the Internet development, we can expect a reduction of the number of dealers. 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 enough competitive for the new situation.

The concept of dynamic capabilities is highly relevant in periods of expected change in technology and environmental factors. In this case it is IT and EU deregulation respectively that will initiate the change process. IT will come first and we know what has happened in other industries and also what has already happened in the USA. EU deregulation will come relatively slow and there are no facts available yet. Within a couple of years we can expect a more competitive environment in Europe.

From sales and distribution cost to value creation

From our analysis we are drawing the conclusion 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 in this respect. USA is leading the process of change so far and the expected deregulation of EU markets is one cue for similar developments in Europe.

In order to increase the supply chain efficiency OEMs have focused on reducing the cost, increasing the quality and reducing the time of the assembly process as well as in the supplier relationship. The development of information and communication networks (ICT networks) has been one of the main enablers for OEMs achievements. Through ICT networks it has been possible to unbundle the physical and information flows and restructure the logistics system. Benefits have been gained for all parties in the supply chain. The unbundling and restructuring of flows in order to increasing efficiency have emerged as one of OEMs core capabilities.

The unbundling of the physical and information flow from the assembly units to final customer will facilitate for the OEMs to increase efficiency in the supply chain. The present lack of unbundling the flows is due to the traditional S&D channel actor's different focuses. OEMs are facing a new situation in S&D where their focus upon cost, quality and time for the car still is important but only part of the value creation of the customer. Traditionally, this is the dealer responsibility. To many dealers this implies selling the car. However the rigidity of the incumbents has opened up for challengers – the new Internet based middlemen.

This is also in alignment with a point of criticism against transaction cost theory, that the efficiency criterion is based on the minimisation of the transaction cost of an individual player, in this case the OEMs. The long-term values of a cooperation between OEMs and dealers are not taken into account. The idea with acting opportunistic, as with focus on a individual player, is hence not the main interest, instead the *value* of the expected future exchanges and relations is in focus which mean that the customer also have to be incorporated. In addition, the emphasis on value maximisation requires recognition of the interdependence of the exchange partners. As Zajac and Olsen (1993:137) writes:

> More specifically, value estimations of interorganisational strategies require that a focal firm consider the value sought by the firm's exchange partner. By taking the partner's perspective, the focal firm can better estimate the value and duration of the interorganisational strategy, given that the value and duration are determined interdependently by both firms. As a result value estimations and realisations are based upon the interest of both exchange partners, as opposed to those of individual firm interest only.

A change from transaction costs to transaction value also directs our interest to the interaction process between the partners. Divergent interests, network relationships, and changes in value creation can be sources of conflict in the sales and distribution part of the supply chain. By looking at the process from the other actor's perspective the conflict can be identified, resolved, and joint reconfigurations implemented.

From the OEMs' point of view, the new Internet-based middlemen are not adding value, but questions their way of managing the supply chain. Through Internet sales, the geographical boundaries are disappearing and the ability to handle each market separately is vanishing. Transparent prices, competitors that uses generic modules from similar suppliers, and the lack of sensing of the customers demands is likely to push OEMs further back limiting their ability to customer adaptation, not market adaptation.

The new Internet-based middlemen are customer-oriented (e.g. Autobytel, CarsDirect). They have developed a package of all necessary services of comparable brands on the market to enable the customer to evaluate the purchase cost, the ownership cost, and the brands support to the lifestyle of the customer before the decisions are made. But the traditional dealers are more biased in their communication since they are focused on selling what a specific OEM has assembled.

In the prestige car market the personal meeting is still an important aspect (Pine and Gilmore, 1998) as well as the possibility to reveal the S&D experience over time. From the Internet-based middleman perspective is the upstream actors, OEMs, are lacking the ability to handle customer values.

Traditional dealers focus on the six integrated businesses, out of which sales of new cars is one. By connecting the other businesses, financing, insurance and service offerings, the pure car focus is shifting to a situation where the car's cost/quality and brand is foundations upon which customer values during the car ownership are created during the car ownership. From OEM's perspective the dealer's offers different service quality attributes, which larger dealers (with more than one dealership) see as a necessary adjustment to different communities. For the OEM this is a risk for degeneration of their brand.

With the new Internet based middleman entering the channel the value creation, except for the repair and service programs, are unbundled from the dealer's perspective. Test drive and hand over of car are services that the pure Internet based middleman cannot handle. But the dealers' brick and mortar facilities are not necessarily required. It can be handled at the customers' office or at the buyers' home at more convenient hours. For the dealer there is a risk to lose control over a part of the new car business. In that case they would become more dependent on the service and repair businesses. Our conclusion is that the traditional dealers have to shift focus from sales of the individual car to the exchange process in order to developing a service/distribution centre of the lifestyles that the brands and customers are representing. Some dealers are already working with this concept.

Based on Teece (1998) Figure 5 is explaining our conclusions for the S&D of prestige cars:

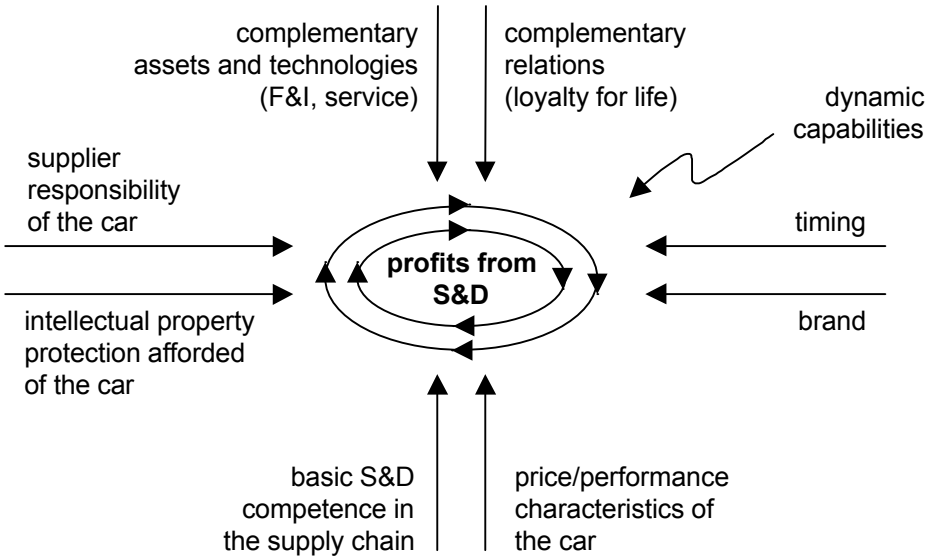


Figure 5 **Value creation in car sales and distribution relations** (adapted from Teece, 1998, p.73)

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 the physical product in it self.

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 knowledge regarding the customer, which both for the dealer and OEMs are the source of profit, has to be shared through ICT networks giving all parties a sensing of the dynamic and complex nature of their customers. The relationships between the dealers and OEMs have must also be differentiated.

Finally, there will be considerable differences between very established, strong brands in a market and the small newcomers. The latter group will be more inclined to use Internet-based middlemen because the OEMs have costs to save and little to lose in the dealership relations. These actors might be the leaders in a new and more efficient S&D even for the established ones.

Managerial Conclusions: Hybrid Channel as a Quasi-Resolution to Conflict

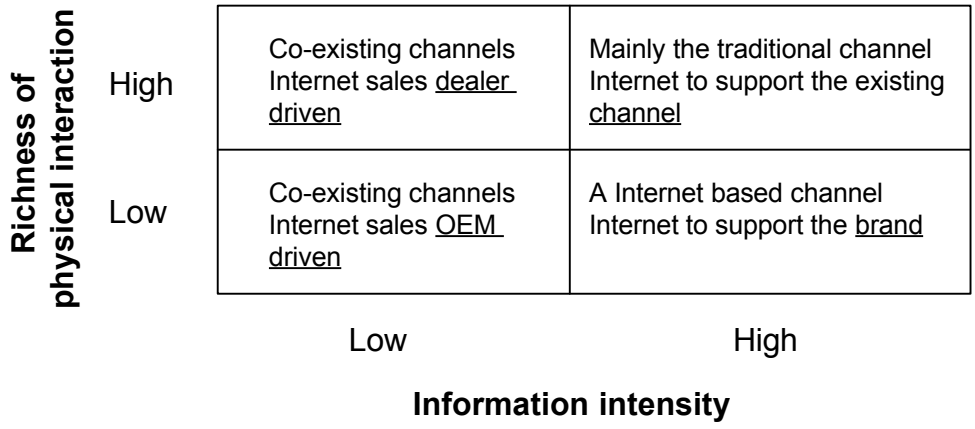
From the gap analysis we can draw the conclusion that no single actor has the power to imposing or getting acceptance for his or her own ideal SCM structure. Even the most powerful actor, the OEMs, would be taking too high risks by breaking up or taking conflicts with the established dealers in a direct sales strategy (the Dell model). [61]

A compromise must be found in a stepwise introduction of change in the S&D system. There will always be different interests between the OEMs and the dealers on the division of the total sales margin but the cost pressure for change in the present system will increase both from inside the actors' and from the new middlemen. However, the OEMs and the dealers will always have different interest that 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 development of a more efficient S&D system.

In a customer-driven S&D system a hybrid channel structure is preferable except for the fleet owners that already have direct relations with the OEMs. The hybrid channel designs combine offline (personal) and online (Internet). This strategy for serving the different customers needs and exploring the possibilities to cost reduction and service improvement in the channel requires changes in the roles of the upstream actors.

There are obviously potential conflicts that arise from potential channel intervention from the OEM, new intermediaries and a changed dealer role.

With a focus upon the buying process and segmentation into low and high richness of personal interaction as well as low and high information intensity different preferable channel outcomes can be observed (Figure 6)



[61] The only exemption might be a new brand with no or a low market share in a specific geographical market.

Figure 6 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 a pure Internet based process is preferable. Experienced buyers, such as fleet operators and some private buyers, which already are well informed are examples of customers that in the sales phase are located in this corner. The strategic question is which actor that is responsible for the Internet based process and how the other activities are co-ordinated?

In this context, the actor that can deliver the most competitive mix of cost efficiency and service should take care of the distribution since the delivery is directly to the customer office or house without any personal contacts. In this corner the OEM's Internet strategy should support the brand since Internet besides traditional advertising is the only way to influence the buyers.

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. In this situation the high richness of personal interaction is difficult to webify (see for example the difficulties that "boo.com" have in convincing customer to buy designer cloths online). 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 in the traditional channel 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 the SW and NW corners with low information intensity combined with either high or low personal interaction activity the existing channel is supported with an Internet based one. The main issue here is in which way Internet could enhance the customer's value in sales and distribution. In the gap analysis dealers and OEM have different interests in the Internet sales.

The SW corner is presently an unlikely combination. With a shift in focus from OEM driven value chains to personal networks where the customers purchase of the car is not based upon the car in it self, rather as a required part of the life the customer want's to live place the S&D in this corner. The low-low corner is a demanding new situation for the industry.

If the prestige car dealers not can shift its focus from sales the new Internet based middleman is a partner for OEMs in all corners. Through their relationship they can handle the information flow together and OEMs can create a cost efficient and centralised physical distribution solution, serving customer at their home or office. We, however believe that for prestige cars are a reinvented dealership offering a better value for the individual customer, but for fleet owners can a interorganisational co-operation between OEM and new Internet-based middleman better serve the fleet owner with information and customer service. The reason is that for fleet owners are the experiences not the preferable situation, it is more a question of buying services. If OEMs not are involved in the Internet-based channel we believe that the relationship will be price focused and not generating a lasting relationship with the customers.

Theoretical Conclusions

Obviously the transaction costs must become lower in a more efficient 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 final consumer should imply a lean distribution system with significantly lower transaction costs. Why is it not already implemented to a much greater extent?

The reason is that transaction cost efficiency is not the only criterion on efficient S&D from the OEM's point of view. The creation of value and personal contacts is necessary for the efficient communication with the prospective buyers. The business is local and there are considerable emotional arguments to consider.

We have shown that none of the theories or approaches referred to offers a satisfactory framework for the understanding of the processes of change that we are studying.

The network approach seems well suited for describing of co-operative relations in an integrated S&D chain. The characteristics of the new relations in the S&D chain we described are based on conditions of openness, trust between the parties, common information and communication networks, inter-organisational collaboration, and a common vision. These are characteristics of relationships that are expected in business networks according to the network approach that emphasises the importance of open and trusting co-operation.

The network and interaction approach has a limited interest regarding the interdependencies, but is weak when it comes to considering the performance pressure from the OEMs all the way through the supply chain to the final customer. The development of new core relations is here a key issue which emphasis the dynamic nature of the OEM-dealer-customer relationships in contrast to the present stable and long-term nature. By tapping each others resources into the S&D chain the developed knowledge can create a common increase of the value. In the network approach the learning processes play an important role (Håkansson, 1993) which is in alignment with Teece (1998) orientation towards competence and knowledge development driven by dynamic capabilities.

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