

The role of trust in building and developing Automotive Manufacturer-Dealer relationships

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Abstract

The goal of this paper consists of analyzing the fundamentals of the relationship among a car manufacturer and its distribution network, focusing, especially, on the trust determinants. The nature of the rapport is controversial since asymmetrical power and, at the same time, strong exclusive bonds influence the perception and the decisions of the parties. In addition, a recent evolution in the European retailing contract regulation has given new rooms of improvement for the relationship but has also left dark areas as regards potential opportunistic initiative.

Based on the emerging theories on trust and the construct in relationship, as stated in the IMP Group school, this work in progress paper wants to explore the deep nature of relationship and trust in order to understand and reinforce the distributive relationship in the renovated competitive and opened arena wanted by the EU regulation.

The relationship analysis will be carried out also according to the final customer (driver) position in the triad (customer, automaker and dealer). We assume that customer preferences and satisfaction influence significantly the relationship between the manufacturer and the dealers. The buying approach is now evolving since the introduction of internet and since the consumers are more inclined to "shopping around" experience during the car selection process. This leads to an articulated buying approach that is opening new feature in the selling format (car infomediary portals, internet retailers, multi-brand outlets, independent importer dealers, dealer groups, etc.)

The automakers are therefore facing the opportunity to implement a multichannel strategy, not applicable since now, due to the existence of the exclusive dealer agreement.

The new EU regulation opens up new ways to establish relationship with distribution operators and in this light reinforces the need of a multichannel strategy to sell cars.

A multichannel strategy emphasizes the need to conceive different relationship approaches with operators overcoming the misuse of asymmetrical power characterizing the traditional "franchise" rapport. Therefore concepts such as commitment, satisfaction and trust become central for the successful relationship development. Trust is seen as an antecedent which influences fairness and push the dyad to develop long-term relationship. This work-in-progress paper is aimed to outline the relationship attributes and the role of trust and it is a first step of a wider research involving automotive dealer and automakers aimed to verify the assumptions identified in this paper and in order to define a viable model to introduce in this market a multi-channel strategy.

1. The relationship between car maker and the dealer

A central theme of channels of distribution theory and research is that suppliers need to develop policies and programs to evoke and maintain desired forms of behaviours from independent partners in the distribution network (Frazier, 1999; Kumar, Stern, & Achrol, 1992). Agrawal and Lal (1995) concluded that since almost half of the cost to the consumer is added on after the product leaves the manufacturer, strategic collaboration reduces such costs through improved efficiency along the entire streamline.

Researchers embracing the relationship marketing paradigm posit that the key antecedent factor for a relational orientation to flourish in channel dyads is trust in the exchange partner (Morgan &

Hunt, 1994). Defined as willingness to rely on an exchange partner in whom one has confidence (Moorman, Zaltman, & Deshpande, 1992), trust has been shown to reduce perceived uncertainty, facilitate risk-taking behaviours, and foster a cooperative and/or constructive orientation (Morgan & Hunt, 1994).

On the other hand researchers have argued that channel relationships which are asymmetric in terms of market domination and market power tend, especially in the car market, to demonstrate a high level of conflict and low levels of cooperation (Ogenyi, 1998), communication (Kumar, Sheer, Steenkamp, 1995), trust (Anderson, Weitz, 1989) and stability (Stern, Reve, 1980).

Traditionally automakers, especially in Europe have settled relationships with the distributive networks following a top-down approach which has created a power-dependence relationship (Frazier, 1999).

The high level of car demand, constantly higher than supply until the 1980s, have shaped the car manufacturer supremacy over the other actors (customers and dealers at least). The outcome of this "sellers' market" has created opportunities for high profit that have been "channelled to dealer network, which in substance have accepted to give up their entrepreneurial independence, basically wiped out by the restraints entailed in the franchising contract, in exchange for high profitability levels, and low risk" (Volpato, Buzzavo 2003).

Frazier (1983) defines this kind of dependence as a need of a firm to maintain its business relationship with the partner which is perceived irreplaceable (Kumar, Scheer, Steenkamp, 1998). Therefore, when one firm is highly dependent on a channel partner, it has an interest to give some reception to the partner's policies, programs, and specific requests, because otherwise it could mean losing the (valuable) exchange partner or some portion of the value received from the partner (Yilmaz, Sezen, Ozdemir, 2005).

In this perspective the role of trust is completely different then in a symmetric relationship. The motivation to develop a relationship with the supplier is based largely on calculative concerns rather than the level of pure trust placed in the supplier. This non orthodox dealer approach is largely due to fears of retaliatory punishment. As a result, a majority of dealer's relational behaviours in this interdependence condition is in the form of passive adherence to the suppliers' specific demands, where the level of trust placed in the supplier does not come to sight as a prime factor (Yilmaz, Sezen, Ozdemir, 2005).

The dynamics of last decades in the European car industry have shown that there is an excess of supply over demand. This overproduction has lead to 'stock-push' strategy, thus putting pressure on dealers to achieve sales results. The manufacturers are therefore obliged to control their distribution system in order to ensure efficient supply and profitability (Ogenyi, Blankson, 2000)

On the other hand the calculative or passive trust demonstrated by dealer is not anymore effective to grant the market potential exploitation required to beat competition. Manufacturer and dealer have to joint resources to deploy the best market strategy.

For this purpose many suppliers in the present empirical setting have implemented several well-established monitoring procedures (electronic transfer of orders and other information, mail surveys of end customers, customer feedback in web sites, frequent after-sales contacts with customers, announced and unannounced visits by boundary personnel, etc.), which enable them to keep close track of dealer behaviours and performance outcomes (Yilmaz, Sezen, Ozdemir, 2005).

On the other hand they have pursued a network selection process in order to robust their market presence. Automakers are generally moving toward a dramatic reduction in the number of intermediaries, aiming at three main objectives: to reduce intra-brand competition among dealers in the same franchise; in such a way , to make it easier for dealers to achieve economies of scale; and to regain the share of "dealer discount" which presently dealers are forced by the competitive game to give away to customers in order to close the sale. (Volpato, Buzzavo 2003, Buzzavo 2003). Figure 1 shows that in five years elapse time (1997-2003) the main European car distributive market have seen reduced its point of sales no less than 15%-20%.

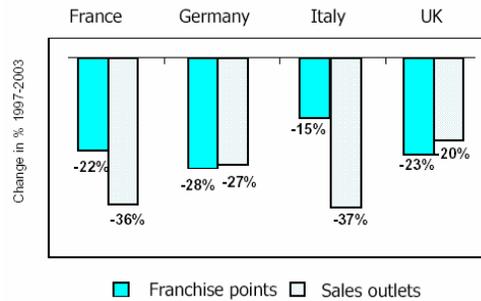


Figure 1- Evolution of car dealers in European markets. Source: Buzzavo, Pizzi 2005

Further more dealers' resentment of manufacturers has grown considerably in recent years, following changes in European competition legislation. The latest regulations were designed to encourage competition in sales and servicing of new vehicles, and to offer customers and manufacturers more options when buying and selling cars. In reality, they have allowed automakers to reinforce their domination on dealers. Among other things, they have encouraged manufacturers to redraft their dealer contracts, introducing many new clauses and restrictions.

The increased competitiveness due to a set of market factors has led to a growing use of incentives of various kind, but also to a greater degree of pressure exerted by manufacturers over their networks, in order to pursue higher levels of sales, customer satisfaction, and overall effectiveness of the supply chain (Buzzavo, Pizzi 2005).

Gartner Group (2004) asked European dealers whether they thought the new rules and contracts, introduced with the new Block Exemption Regulation in 2002, would have positive or negative effects on specific areas of their business. Most of the respondents thought the impact would have been bad. Dealers in France and Germany were sure the tighter standards imposed on them would have adversely affected their business. Many, especially the smaller German dealers, felt their relationship with manufacturers had been seriously harmed. On March 2005, BMW in the U.K. announced that it was ready to dismiss 20% of its dealer network, if standards weren't met. The German car manufacturer has written to 30 of its 160 U.K. dealerships with a clear warning notwithstanding sales had grown up to 102 thousand in 2005 (+50% in 4 years) (Gartner Group 2005, Hope 2005).

As regard cost increase, the new EU legislation has introduced the qualitative standard as minimum requirement for running a dealership that belongs to a make network that has chosen a selective contract. Since all makes, with the exclusion of Suzuki and Porche, have chosen this format, all the authorised distributive operators have seen an increase of investment as regard infrastructure (Corporate Image) and of general expenses such as training, POS materials etc..

This depicted market situation in Europe (push strategy due to competitive pressure and the new standard requirement compliance to the new legislation), asks for a reinforced cooperation between car dealers and automakers. Automakers are therefore lead to rethink the way they interact with their distribution network. They have to make massive investments not only in new car production but in the distribution network too (Ogenyi, Blankson, 2000).

Unlike trust in this interdependence relationship could generate only marginal effect, it may facilitate the relational behaviours of more dependent members of asymmetric channel dyads as well (Yilmaz, Sezen, Ozdemir 2005) and consequently is the positive way to build a strong relationship with the distributive operators.

The findings of Ogenyi and Blankson's study (2000) on car dealer market demonstrate that fairness and commitment can be developed even in an highly asymmetrical relationship if the dealer is treated fairly by the manufacturer. Cooperation and collaboration of the distribution network are therefore essential to sustain the growing market battle in car industry.

Out of our opinion the growing tensions between car dealers and automakers will lead to a new relationship equilibrium, probably more trust based, but furthermore will open opportunity for the potential entrance of new operator.

Starting from the analysis of the existing distributive relationship in the car market domain, this paper is aimed to understand and evaluate the coming scenario of the car market. More deeply we want to discuss over the entrance of new operators inside the world of the car distribution. These new operators hold probably new business models, different behaviours from the traditional dealers and consequently require new relationship scheme from the suppliers. We sustain that automakers will have to face with a double goal in the next future: from one side to improve the relationship with the traditional network, that stands now in a seat position, and from the other to design a multi-distributive channel strategy in order to manage the relationship with various new comer in the distributive market.

This work in progress will not state the boundaries of the multi-distributive strategy but is aimed to understand the scenario in order to define the baseline on which a strategy can be formulated.

In this perspective it's a must to understand the car market trajectory (from the customer point of view) and the next distributive arena.

For this last purpose we start framing the final customer and the role he plays in this scenario.

2. The purchasing process

As said before the relationship between dealers and suppliers is based on the power-dependence balance of the two parts but is also influenced by the position and role played by the final customer, in this context the driver.

Following the channel equity paradigm (Pellegrini 2003) we must recognise that, naturally or driven by competition authority, markets evolve toward dynamic equilibrium among suppliers, channels of distributions and final customers. This equilibrium is the result of the interaction of power, value and goals brought by the three types of actors in the exchange relationship (suppliers, dealers and customers).

In the first phase of the European motorization (let's say after the World War II), as stated before (Volpato, Buzzavo 2003), car market was dominated by the makes' role; dealers had to perform the physical distribution task only and the final customers had no voice since their purchasing approach was simple and the decision to buy not crucial (demand was higher than supply).

Nowadays the global market is in a mature life cycle stage (Stocchetti, Volpato, 2006), there is a physiological excess in supply and customers have matured an higher awareness of their role in the buying process (Wade, 2003).

The evidence produced by the research over the internet use in the car buying (Ratchford, Lee, Talukdar 2003) suggests that the Internet provides efficiency gains to consumers who has increased pre-sales information and consequently bargaining power. The result of the increased availability of information to consumers due to the Internet is likely to be a change in the structure of auto retailing toward lower margins, more competition among retailers, and less need for dealers to spend time with consumers. Car dealers are therefore caught in a bite; suppliers want them to perform better and customers exercise their pressure in order to get the best deal (shopping around tactics (Volpato 1999), request for continuous discount, etc.).

In this perspective we argue that the role of the dealer is changing and probably new model of intermediation in car selling will arise. Car intermediation will try to shape a new central role in sales and servicing as happened in other industries (e.g. white & brown goods). Previous research over the role of intermediation (Butaney, Wortzel 1988) found that the distributor's power or responsibility for the marketing decisions in the channel is higher:

- under competitive market conditions,
- when the distributor serves small customers whose switching costs are perceived to be high and
- when the distributor teams up with a concerned manufacturer who regards the particular industry as an important customer

Notwithstanding all these condition aren't confirmed in the car distribution market, we can sustain the prediction for innovation in distribution models. To deeply interpret the potential trajectories of

trade model innovation, we start depicting the portrait of the driver with the aim to investigate the feature of its buying process.

The car buying process is not a new object of study. Many researches have dedicated attention to the investigation of the car customer behaviour.

Here we don't want to focus on the car model selection or on the price selection criteria, but specifically we concentrate over the aspect of selection, information gathering and consequently pre-sales behaviours.

This step of the buying process is knowledge intensive and is centred over the role of info intermediary (dealer showroom, dealer and automaker web site, vertical portal, industry magazines, word-of-mouth, TV programmes, etc).

The available sources (Wade 2003, Furse, Punj, Stewart 1984) show that customer is willing to get more and more information and is able to utilize them in order to optimize the selection process and get the best bargain. Although still latent, recent tendencies recognise a growing approach toward store loyalty as example of the evolvement of customer buying intention. Sometimes store loyalty prevails over brand loyalty and particularly in the case of sales done by multi-franchise dealers.

For Lambert-Pandraud, Lurent and Lapersonne (2005) who have analysed a research over 29.000 French new car replacement purchaser made by a leading French market research company starting from the mandatory government-run registration system for new cars, more than 80% of the interviewee considered new brands when they have had to replace the old car; but only 50% intended to buy it in a new dealership. This corroborates the loyalty toward the point of sales.

On 2001 Lademann & Partners (2001) made a research on behalf of the Competition directorate of the European Commission in order to understand the customers preferences for existing and potential sales and servicing alternatives in automotive distribution of new cars. The study covered Germany, France, The Netherlands, Spain and United Kingdom and involved 500 respondents. The survey has shown that approximately one third of the consumers buying a new car intend to remain loyal to the dealer or the workshop and therefore also to the brand; another one third intend to remain loyal to the brand but are prepared to change workshops, and the remaining are neither loyal to a brand nor to a dealer or workshop, but rather look for the best offer on the market for a particular type of car. From the dealer's standpoint, this means that at least two (one) thirds of potential buyers of a new car will choose among different dealers (and brands). This possible loss of customers forces the dealers to act competitively. This also applies to the third (of consumers) which is fundamentally loyal to the dealer, as their loyalty cannot be secured by qualitatively insufficient market efforts. In this perspective the authors estimate the market opportunities for multi-brand dealers of almost the 9% of the new car market in European countries.

Taylor-Nelson Sofres (2001) (TNS), one of the main market research agency in Europe, conducted in 2000 a study over the perception of the automotive distribution in Europe. The research which covered Germany, France, Italy, United Kingdom and Spain was addressed to 4.000 new car buyers. The research agency stated that the main desired channel to buy a car remains the traditional dealership or the own branch of the car maker. But new format of distribution are arising: 70% of the respondent declared to be interested in multi-brand dealer, 50% in independent chains. Less interesting appears the web channel (22%) which is interesting to provide and collect information only. The traditional supermarket as a channel to sell cars are not positively evaluated. In the mind of the respondent, Multi-brand dealer have significant interest since they can offer a wide range of product, that's to say more test drive, more physical car comparison and probably better price conditions. Car in supermarket do not get sufficient interest since notwithstanding it can offer bargain to the consumer can't guarantee a minimum level of standard service (such as post-sales assistance, test drive, technical information, etc.).

As regards Italy, a research conducted by Findomestic-Prometeia (2002) over 1.700 buyers or prospective buyers during the years 2001-2002, outlined that consumer's preference is to

authorised dealership, followed by multi-brand distributors (not covered with franchise contract) and at least with branches of the NSC.

As regards Point of Sales choice, the most important parameter is relationship with the dealer (30%), together with the proximity (30%). The price bargain selection account for the 28% signalling the strong competition and the shopping around approach of the customer. Word of mouth accounts only for 11%. As regards internet, 45% of the sample has used websites to collect data from dealers and 55% is interested in internet as a channel to sell their used car. Notwithstanding, 30% of the respondent thinks that internet has no role to buy a new car.

The role of internet in the purchasing process of durable good has widely been studied at an international level. In particular it has been applied to the car sector by the following researcher.

Ratchford, Lee and Talukdar (2003) reported that over 886 respondent of a mail survey concluded in 2000, 39% has utilised internet to get information about car selection (price information). 74% of the web surfers used internet to get informed about product performance, one quarter to get referrals to dealer. The preferred web site is still the manufacturer portal (28%). Important to note that 27% of the surfer has declared to have visited consumer reports web pages (web magazines & media). 19% visited pure infomediators (Autobyte, Carpoint, Priceline, ect). Only 4% has visited dealership web pages. The average of web sites consulted is 1,8 sites with an estimate average time of 3,8 hours. This research indicates that the presence of the Internet leads to substantial reductions in the time with traditional dealer/manufacture sources. The Internet appears to provide efficiency gains to dealers as well as to consumers. Dealers save in selling time if consumers come in armed with information that they would not have obtained if the Internet were not present.

Vividence Corporation (2002) has found that among people (400 respondents) who are planning to buy a car in more than six months (but less than one year), 50% have already begun the shopping process. Even among those who do not plan to purchase a new car for more than one year, 32% have already begun shopping. With easy access to information on the Internet, people can begin gathering information and considering options for their next car long before they actually plan to purchase. Consumers are increasingly turning to the web to facilitate the car-buying process, making the web a vital component of the marketing strategy of any automaker. Among those in the Vividence sample who had begun the shopping process for their next vehicle, 94% had conducted online shopping activities, such as researching vehicles, requesting quotes from dealers, and ordering brochures. Also, 82% had visited specific automaker sites, typically to research particular cars or to request dealer quotes. Only 67% had visited a dealership in person during their shopping process. When asked where they go first when beginning to research cars online, 58% of participants said they start at a manufacturer website, compared with only 39% starting at independent third-party sites (e.g., Edmunds, Kelley Blue Book, etc.). If buyers can find deeply and precise information regarding the car selected, they surf independent third-party sites in order to compare the market offers and get informed about vehicle reviews.

According to J.D. Power and Associated (2002), the independent, third-party Web sites continue to lead the automotive Internet marketplace, with 82% of automotive Internet users visiting such sites compared to 83% percent in 2001. The study, now in its fifth year, finds that 76% of automotive Internet users visited a manufacturer Web site in 2002, compared to 73% a year ago. Traffic to dealer sites improved to 48 percent, up from 46 percent in 2001, representing a 55 percent increase since 1999. The study reveals that more consumers than ever before are visiting also dealer sites, sign of a major interest in the intermediary as a vital actor in the transaction, overcoming the limit of pure distributor. Furthermore, of the 60% percent of new-vehicle buyers who use the Internet while shopping, 88% visit automotive Web sites before arriving at a dealership for a test drive. The average automotive Internet user visits seven Web sites while shopping for a new vehicle and starts the online shopping process nearly two months before they purchase.

Forrester Research (2002) announced in 2002 that by 2003, eight million new vehicle purchases will be researched online, which represents half of the U.S. market's annual sales, and five million new vehicle purchases will result from online dealer locators and online price quotes (Scott Morton, Zettelmeyer, Silva-Risso 2001).

According to these researches the process of selection and buying a new car is complex and articulated. As stated by Furse, Punj and Stewart (1984) in car buying process coexist different patterns of consumer decision making, and consequently different selection approaches arise, as function of involvement, ability, distraction and level of automation of the customer feeling (see figure 1). The traditional distributive network represented by the mono-brand dealer does not fit anymore alone the many facet of the customer desires as did in the past. The satisfaction of the different customer's feelings requires therefore different offering models and as many information sources.

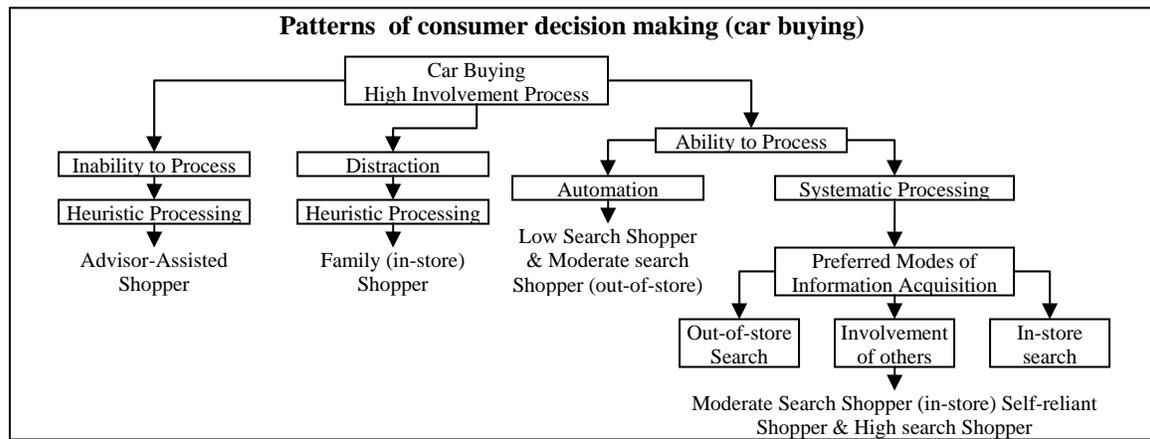


Figure 1: Patterns of consumer decision making (car buying). Source: Furse et al. (1984)

3. Potential new distribution formats

According to Cardeon (2001) the way in the future cars will be sold differs along the various customer profiles identifiable in the market. He takes in example the category of food where at least you can distinguish six consumer profiles (traditional, image, price, etc). Since food distribution market is already in a mature life cycle phase it's easy to associate per each profile the right answer in term of distribution (shop in the quarter, supermarket, discount, internet, etc.). In the same way in the auto market distribution we will observe in the next future the evolution of the offer toward the different demand profiles expressed by the driver; perhaps the proximity service mono-dealer, the mega-dealer with different brands, multi distributors specialised by car segment (e.g. Luxury cars), click and mortar distributors, independent franchise chains who are replenished by international importers (who buy bargain of large stocks of different makes), etc.

Probably one of the next winning format will be the multi-brand dealer. The business model for a multi-brand dealership will lead to a kind of 'car centre concept' (Lademann & Partner 2001), where all the activities related to car (buying, financing, leasing, renting, servicing, part and accessories buying, etc.) will be performed for all the makes. Due to the considerable capital requirements, such large companies would probably settle in relatively few locations, preferably in high-population areas, but would not have a broader presence. The Lademann & Partners' simulation (2001), grants to this new model of business a market share of 9%. However, it is also to be expected that the arrival of mega-dealers would speed up the concentration of the traditional franchise dealer network and invoke a major integration in the sales & distribution structure of automakers.

In figure 2 we try to synthesise the prognosis of the market evolution for the main western European countries as seen by two main advisors who were consulted by the European Commission Competition Directorate in 2001.

	Direct from automakers	Franchised dealer	Multi-brand dealer	Re-importer	Unrelated retail	Internet dealer
Lademann	38%	45%	9%	2%	3%	3%
TNS	33%	28%	15%	6%	14%	4%

Figure 2: market share per distributive business model, adapted from by Lademann & partners (2001) and Tailor Nelson Sofres (2001)

In the meantime other researchers (Buzzavo 2003) have analysed the market concentration of the most important multi-brand dealers operating in the main western European countries after the introduction of the new Block Exception Regulation (1400/2002) (see figure 3).

	France	Germany	Italy	U.K.
Market share	45%	9%	2%	3%

Figure 3 : Market share of the top 50 dealer groups by country. Source: Buzzavo 2003

The more opened legislative distributive scenario as wanted by the new BER (Block Exception Regulation) has pushed the concentration process. The clear consequence of an open sales and servicing scenario is therefore a strong concentration process, especially in the fragmented and partly over-filled network of franchise dealers. But the explanation of this is not only in the new normative regime. It must be found in the customer approach and preferences too. According to the construct of Konishi (2001), the author's opinion is that the high concentration of car dealers can increase the size of the pie widening the potential offer to the customer, although close proximity of point of sales in the so called "car centre" implies that the different makes represented compete with each other more vigorously (price-cutting effect). Therefore, if the former positive effect (increase of the market) sufficiently exceeds the latter effect (price competition), then car dealers groups can actually make higher profits under higher concentration than by operating alone. These considerations are acceptable under the condition that there is the market-size effect due to taste uncertainty: a higher concentration of stores increases the probability of a consumer finding a buyable car at the "car centre" than in the single dealership. Thus, a consumer's expected utility from shopping there increases, resulting in a larger market size at that shopping centre. The second effect also operates through an increase in the consumer's expected utility: a higher concentration of stores sends to consumers a signal of lower prices. This increases a consumer's expected utility of choosing the shopping centre, and the market size expands again. This may be called the market-size effect due to lower price expectations. Thus, consumer taste uncertainty and imperfect information regarding prices give dealers incentives to concentrate their locations.

The evolution of the car distribution structure is also confirmed by Chanaron (2002) who outlines many tendencies:

- concentration toward multi-brand and multi-site group which sometimes are quoted in the stock market and who can negotiate with suppliers market conditions more favourable since they trade huge stock of cars, cutting excesses of production of the automakers standing in the parking lots.
- counter offensive of the automakers who try to establish own sales branches in each market such as made by Nissan, Toyota, Mitsubishi, Renault, PSA and Fiat.
- potential emergence of the car selling over big retail format such as supermarkets or the "town of car" or "auto malls"
- car concept evolution toward the service versus the product symbol; that's to say emergence of new operators who intermediate cars without selling them such as long term renting.

- innovation in logistic and streamline of the distribution chain (automaker stock reduction, reengineering of distributive processes and overhead selling cost cutting, etc.)
- implementation of the build to order strategy in the automotive domain
- technological innovation and the continuous evolution of electronic components inside the car and consequently the new feature requested to the workshop to perform efficiently the post-sales activities.

All these considerations drive to think that the competences of all the actors involved in the distribution activities must evolve. As stated by Volpato and Buzzavo (2003) the reduction of the number of dealerships has imposed the volume increase in the remaining and consequently major management complexity. Many dealerships aren't anymore able to manage business with the traditional family approach but are not ready to embrace structured managerial models closer to the corporation.

Further more the Chanaron's considerations (2002) let us think that the answer to this evolution question can't be found in one best way approach but conversely can be sustained by different interpretation which generate different business models. In this way Jullien (2001) outlines that operators such as Autobytel, Cardirect in US and AutoPlanet, Degrifcar in France have entered the car distribution market following new business models more focused on activities thought to be more profitable. Finally we have to remark that since now all this new evolving models have not already generated successful examples as did, in example, in the publishing distribution industry with Amazon.com. This feeling is also supported by Jullien (2003) who sustains that the internationalisation of distribution, been started in US, is far from being over. That means that all the trials and the new business models experienced, despite their innovative content, can't be defined sustainable and that the existing models notwithstanding a little bit ancient are still workable.

4. The legislative evolution

Figure 4 shows the recent evolution registered in the motor vehicle distribution in EU. Accenture (2001) depicted it the first time for the European Commission Competition Directorate in order to simulate potential path to the evolution of the Block exemption Regulation 1475/1995 that was highly protective for the industry.

The New Regulation 1400/02 therefore introduced first of all the chance to nominate the distributive network on selective or exclusive basis overcoming the limit of the sole exclusivity till that time available. In order to make the distributive market more fluid as regards new comers, it was abandoned the clause of the ancient link between sales and service operations. Dealers had the faculty to assume two or more mandates for the same company with the same staff but with the clause of differentiates show rooms dedicates to the makes represented. This innovation made possible the recognition of the term "multi-brand dealer" till now relegated to the notion of group; different separated dealers aggregated under a financial holding but with no proper common commercial strategy.

On the 1st of October 2006 has fallen down the "clause of location" that means dealers operating in a selective regime can open showrooms everywhere in the EU territory with no restraint at all.

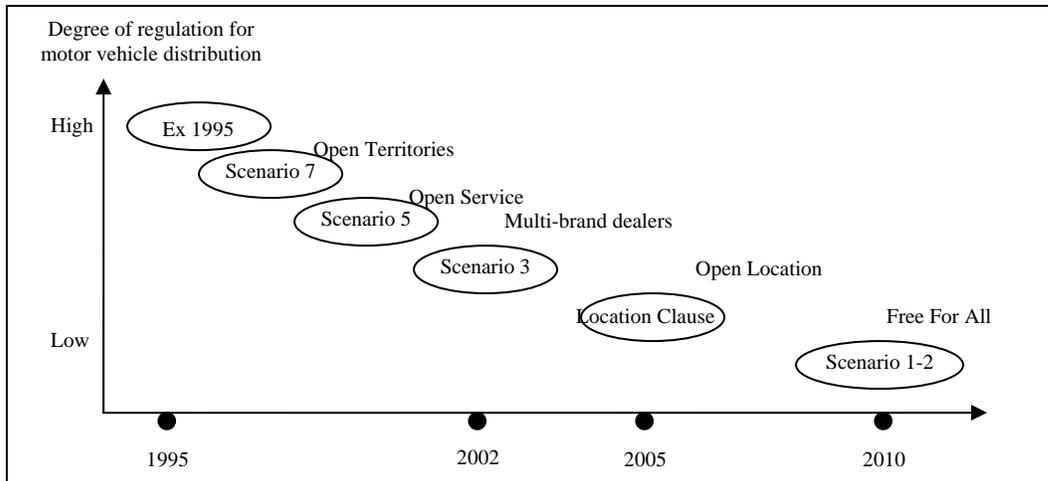


Figure 4 : EU car regulation evolution. Source: Accenture 2001

The current BER 1400/02 expires in 2010. The assumption advanced by Wade (2005) is that it will not be renewed, even in a modified form. Cars will no longer be a special case. They will be sold and serviced under general competition rules. Under this scenario, European dealers may no longer have the right to be exclusive retailers of new cars, triggering a rapid rise in full multi-make retailers.

The path outlined by Accenture (2001) fore sough this potential conclusion starting from the experience of other industry. The white goods market (cookers, fridges etc.) suggests that consumers no longer link product brand image to retailer brand image since production is unlinked to distribution (Wade 2005).

Far from entering in the debate over the social value of vertical restraints and their legislation, academics (Guatri, Vicari, Fiocca, 1999) state that exclusive, selective and extensive distribution approach are chosen according to the category of product sold and to the stage of the life cycle.

This means that car distribution would be naturally oriented toward a selective distributive regime since it deals with a knowledge intensive product. On the other hand we can say that the mature stage of the life cycle of the car industry, and the related characteristics such as excess of supply, high customer experience, competition in the distributive arena, etc, suggest us to stress the acceptance of an extensive distributive model at all but the familiarity with an open network (Volpato 1999) made of many operators interchangeable and selectable. This model called by Accenture "free for all" leaves rooms for improvement for new entrance and development of beginner distribution format and, from the supply point of view, the evolution toward a multi channel strategy which recognise and sustain the identity of each distributive partner.

5. A new dealer management model?

If we recognize customers have and show different preferences we have to admit that these preferences can be satisfied by adequate product policies from the automakers but also by specific positioning styles of the distributors. In this last part of the paper we start differentiating the role of distributor positioning in order to understand the automakers approach to it and consequently the relationship atmosphere Gadde (2004) and the level of trust they have to cooperate with the distribution networks.

Different approaches to distribution network management?

In order to answer this question we have to differentiate the existing distributor models. The essential nature of a distributor can be shaped over two axis: scope of segments covered (in examples city cars, luxury cars, off roads, etc.) and range of makes/models handled (Zaninotto 1987). Figure 5 depicts the profiles of four typical car distributors based on the two suggested axis.

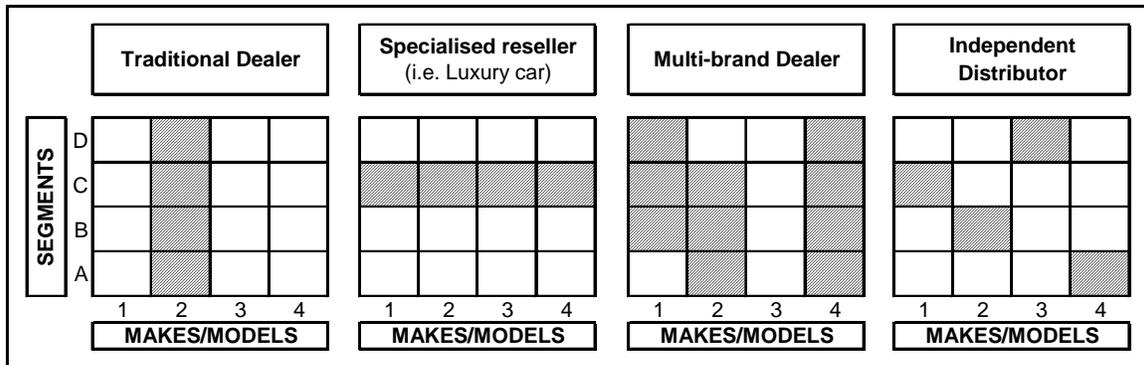


Figure 5 – Typologies of car distributors. Source: adapted from Zaninotto 1987

The traditional car dealers compete on vertical assortment only (one make with different models), at the opposite, independent distributors (resellers who doesn't have a franchised contract with a make and who buy cars, basically Km 0 or imported ones, from other operators) offer a selected range of product per each segment in which they desire to compete. The idea under this model of distribution is to select the "best of breed" for the customer.

Each of the 4 typologies conveys specific information to the customer in order to fulfil its requirements. In the easiest way traditional dealer reports exactly the information the automakers wants. According to Volpato (1987) for the commercial success in this circumstance is relevant the quality of the product and at a second level, the attitude of servicing provided by such dealers. In the case of the multi-brand dealers the information role played is more complex since they can influence customers for one direction or another. Further more the same customer profile is different. In terms of sequential search models (Kogut 1990, Zaninotto 1987) the approach of the customer entering a multi-brand showroom is more inclined to store experience and opened to physical model confrontation with limited assumption on brand loyalty. Also the strategy of a multi-brand dealer is completely different since it can count on the customer pooling effect and a wider cross selling management.

These few differences of distribution models let us to think that automakers need a multi relationship strategy fitting the operator's peculiarities.

Generally speaking it may be assumed that, as a large business, a multi-brand dealer will be less able to cultivate personal contact to his customers than a traditional, often family-run dealer, but on the other hand they can be more inclined to implement a complex Customer Relationship Management strategy based on software tools. In accordance to this and in order to establish a long life and successful relationship Automaker has to differentiate the proposal: stimulate the small dealer to reinforce the relationship with the customer in a more formalized and structured way but excluding probably the "cold" and formal use of CRM tools, and on the opposite cooperate with the marketing department of the mega-dealer to implement successfully a CRM strategy with tools that can cover the entire and complete customer base undifferentiated by makes.

Another example of differentiated relationship strategy consists of Customer Satisfaction survey. Since the four depicted dealer's positioning strategies reflect the way the entrepreneur feels the relationship with the prospect customers, Customer Satisfaction research run by automakers shouldn't be done in a standardised methods with the aim to assess the dealer's compliance to the selective standards, but with the purpose to understand the characteristics of the dealer customer, its preferences and its purchasing approach. In one word to leverage the Voice of the Customer (Mills, 2006). The understanding of the final customer and its purchasing process helps automaker to deploy a customized relationship strategy with the dealer overcoming the standardised approach of selective standard which means "one size fits all" or Customer Satisfaction Index as basis for rewarding or penalising dealers (Wade, 2005).

Summing-up the new vision in setting the relationship with the distribution network must find foundation in concept such as cooperation, rebalanced power symmetry, flexibility, customization vs standardisation and relationship vs dominance where the dealer is seen as the mere executor

of the automaker decision (Volpato, 1987). In other words automaker has to understand when and where the old rules of strong vertical coordination has to leave place to a non-dominance coalition (Zaninotto, 1987) which favourites dialog, support and not control or interference as emerged clearly in a Gartner Group's research (2004) over a sample of European car dealers (see figure 6).

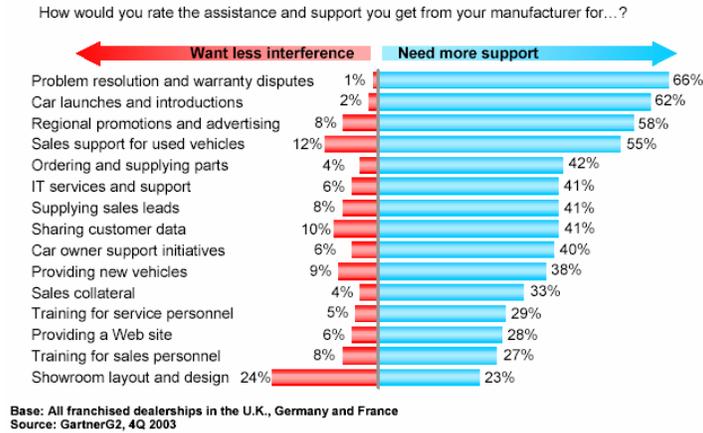


Figure 6 – What's the dealers want and the interference they regret. Source: Gartner Group 2004

Different roles of trust?

Partnership, cooperation, non-dominance coalition, conflict resolution, etc. means that relationship must be trust based.

A 2002 Italian survey made by Quagliano (2002) over a sample of 400 dealers give us the idea that the link between automakers and dealer is not always clearly based on trust. Figure 7 shows that 35% of sample stated that the level of relationship with the supplier is nor good nor bad and the same proportion asserted that the supplier's behaviour is not always correct.

	Good	Bad	Nor good nor bad
Level of relationship	54%	11%	35%
	Correct	Incorrect	Not always Correct
Fair behaviour	55%	10%	35%

Figure 7 – the status of the supplier and dealer relationship in the Italian market source CSP 2002

In this perspective the dealer's cooperation to the success of the relationship and its interest to implement innovation driven by supplier in the distribution chain (CRM programme, information exchange, deployment of build to order strategy, etc.) could be supported by passive adherence since the level of trust placed in the supplier does not come to sight as a prime factor. In other words this constraint leads forced collaboration of the dealer with the fear of retaliatory punishment, not on truly interest in the subject.

Based on these assumptions therefore a double question emerges.

- 1) What are the characteristics of relationship trust with traditional retailers and how automakers can reshape them in order to renovate the cooperation and obtain a full collaboration in the relationship?
- 2) What divergent characteristic underlines the relationship with the new incumbent distributors? What kind of trust can be developed with them? and How can it be implemented?

The answer of these questions are cornerstones to conceive a multi-channel distribution strategy for an automaker who wants to reengineer its distributive network.

The extensive research

In order to answer these questions we need to project a research intended to study the characteristic of the relationship and defining the trust elements at its base. The model is derived from the IMP scholarship's ARA-model (Ford, 2002) and in particular it will be kept in mind the distribution network application proposed by Gadde (2004). He introduces the paradigm of "relationship atmosphere". The basic elements of it are conflict, power and control as stated in figure 8.

	<i>Traditional channels</i>	<i>Evolving networks</i>
CONFLICT		
Potential	Limited	Substantial
Effects	Dysfunctional	Constructive
POWER		
Possession	Moderate	Substantial
Utilisation	Threatening	Influencing
CONTROL		
Ambitions	Substantial	Substantial
Mechanisms	Authoritative, direct	Normative, indirect

Figure 8 – The basic of relationship atmosphere. Source Gadde 2004

He argued that the relationship atmosphere among firms involved in distribution has changed from one of confrontation to that of collaboration. Further more in his study he explores the role of power and conflict in the evolving distribution networks and on the relevance of these 'antagonistic' concepts in relationships characterised mainly by collaboration. The extended research will be driven by the Gadde's assumption that distribution relationships have changed from 'power games' to 'trust games'.

Starting from the previous mentioned assumptions and the theoretic paradigm here depicted, next step of this paper will consists of the defining of the structure of the model representing the emerging multifaceted car distributive schemes and the provision of the main answers the automakers can put in place in order to face this relationship complexity. This model will be empirically tested in the car distributive market.

In particularly the research will involve the automakers, or the National Sales Company for foreign operators, a sample of traditional dealer and a sample of new distributive model operators that must be previously identified, classified and numerically counted.

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