4
Towards a New Business Model for Automotive Distribution

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ABSTRACT *The automotive industry has been undergoing a profound reorganization in upstream activities for quite some time. Such reorganization, however, has only recently started to affect the distribution domain that has traditionally been based on a system of family-owned franchised dealerships according to a scheme of vertical quasi-integration. During recent years the market downturn in Western Europe has exacerbated an already critical situation of reduced dealer profits due to high levels of intra-brand competition, while service and intangible elements in the automotive product matter and digital technologies are creating new potential for change. This chapter focuses on the transformations in place (including margin structures and retailer concentration) and discusses how the traditional business model of franchised dealerships (intended as a set of choices on the target, the offering, the chain of activities and the profit model) is evolving.*

1 Distribution in the automotive value chain

Distribution plays an important role in the automotive industry, for two major reasons. Firstly, it represents a considerable portion of the value chain: industry observers generally estimate its cost between 25% and 30% of the vehicle list price, and the number of employees which are involved in sales and servicing activities in mature markets (such as Western Europe) is usually higher than those which are involved in manufacturing and assembly (Volpato, Zirpoli 2011). Secondly, the distribution chain is also a focal point for the effectiveness of the whole automotive system as it is a territory for value creation: the value of the whole automotive product as perceived by customers is not just determined by the vehicle itself and its intrinsic features but depends on many factors linked to the point of sale and service. Moreover, distribution is a means to match supply and demand, possibly not just shifting metal downwards but rather activating intelligent

«market sensing» mechanisms that are beneficial for the whole system (Volpato 1986). As a matter of fact, franchised dealers are not just involved in selling and in physical distribution activities but have become more and more involved in tasks of marketing and brand support since manufacturers are highly interested in enhancing the purchase and ownership experience towards greater customer loyalty, possibly «for life» (Sewell 1990).

Automotive distribution features a significant degree of complexity due to the specific nature of the product and its demand. Cars are durable goods with a high economic impact on the customer budget, which calls for the deployment of an appropriate system of servicing and parts distribution throughout the market. Demand is highly segmented and that requires a broad product range with significant depth in terms of variations and specifications. In every target market there is an importer (usually owned by the OEM, i.e. a national sales company) that manages product distribution through a network of dealerships (owned by independent entrepreneurs), ensures servicing activities through a network of authorized repairers, and coordinates parts distribution.

The flows of information and finished products that move throughout the automotive supply chain involve many players after the assembly line, including market-level importers, franchised dealerships and logistics companies who often manage stocks on behalf of the manufacturers. As a consequence, the performance of the whole distribution system is not just related to the local optimization of sub-processes, but is heavily influenced by the coordinating mechanisms at the whole system level (Buzzavo 1997).

This chapter focuses on the role of automotive distribution within the whole value chain and addresses the following key questions:

1. How is distribution evolving when compared to performance improvements achieved in other parts of the value chain (i.e. upstream activities)?
2. How are franchised dealers, being the key actors in the distribution chain, performing?
3. Are there trends of retailer concentration, and to what extent?
4. How is the business model of franchised dealerships evolving in response to industry transformations?

These questions will be addressed with specific reference to the Western European market and, in most cases, by making direct reference to the Italian market, where more detailed and analytical data are available over a significantly long time frame.

Before addressing these questions, for the sake of a better understanding of our reasoning, it is worth sketching out how the current distribution system originated about one century ago.

2 The origins of the automotive distribution system

At the beginning (late 19th and early 20th century) manufacturers operated a mixed distribution structure with multiple channels (Pashigian 1961) including: a) branches (sites that were wholly owned by manufacturers and used for direct sales); b) distributors (wholesalers who managed large stocks of cars in relevant geographic areas and channelled cars to consumers through retailers – dealers –, which could be either owned by a distributor or by an independent operator, and which offered a wide range of services to the consumer, in particular repair and maintenance activities); c) agents (in charge of collecting orders from customers, but with a very simple and cost-effective organization).

With the market expansion that took place after World War One manufacturers aimed at exerting greater control over the increasing number of dealers, who were assigned an exclusive sales territory and a set of operating standards. When, after World War Two, the large growth in demand created a mass market, dealers undertook rising investments for vehicles and parts stocks and for brand-specific items (e.g. tools, signs), often representing sunk costs. The distribution contract was full of so many obligations that it determined a sort of vertical quasi-integration (Volpato 1989). In other words, dealers were independent operators but their policies were highly influenced by manufacturers.

The development of such an asymmetric situation was made possible by favourable market conditions (a seller's market), which created opportunities of high profits for car manufacturers. These profits have partly been handed over to dealer owners who in substance have given up much of their entrepreneurial independence, accepting the considerable restraints existing in the franchising contract, in exchange for high profitability levels.

As effectively pointed out by Marx (1985), the system of franchised distribution adopted by the automotive industry was not coming from a «grand plan» but rather it evolved due to changing economic conditions. In the early decades of the 20th century a relatively simple distribution systems existed that was only appropriate for a static and predictable environment: it could no longer deliver the level of coordination that was necessary to meet the increasingly diverse and sophisticated demands for products and services which were coming from consumers,

with a set of sales fluctuations and the need to manage a growing need for trade-ins (that is, used cars that new car buyers had to dispose of while purchasing a new one) that made every transaction unique and requiring trading and not just retailing skills, with a new factor of risk and financial burden involved.

On the whole, the phases of market growth and rapid motorization that took place in the second half of the 20th century have heavily shaped the underlying properties of the distribution system and its operating logics. Thanks to the steady growth of sales volumes, competition among dealers representing the same make (intra-brand competition) was not an issue. Moreover, within the relationship between OEMs and the market the orientation towards customer satisfaction did polarize on the product (function, design, quality) leaving a rather marginal role to service elements (delivery times, relationship with the dealer, after-sales care, and so on). In other words, such emphasis on engineering and manufacturing dimensions left little room in OEMs and national sales companies for an approach based on a service culture and customer care.

Given their rigid cost structure, OEMs are generally inclined to saturate plants and therefore to maximize production volumes, so that even during phases of lower demand the tendency is to push sales, channelling a considerable level of product in the market. So in the traditional logics of operation the distribution network has represented a sort of pipeline in which stock pressure could be exerted rather than a tool through which a two-way communication channel could be activated so as to valorize the wealth of information that can be gathered from customers (Volpato 1986).

Starting from the 1970s, in the car market a series of changes occurred, which gradually led to a buyer's market, and started undermining the sustainability of the traditional structure. Among the most relevant factors of this transformation there are the oil crises, the entry of Japanese competition in the international car market, and the gradual disappearance of first-time buyers, switching to replacement demand in mature markets. Later on, at the turn of the century, pressures grew further with the increase of globalization and competition, the technological transformations, and the effects of the worldwide recession. Although the pressures for change in the 1970s and the evolution from a seller's to a buyer's market started increasing the degree of competitiveness and eroding margins without inducing significant changes from a structural standpoint, the set of changes unfolding in the new century have brought a more radical set of pressures for a deeper overhaul of the business model.

3 Industry transformations and the «system mismatch»

As we have seen, the specific architecture of the automotive distribution system was developed in a way that was consistent with the state of demand. When things started to change, a considerable degree of «mismatch» between upward stages of the car system and downward activities has emerged.

The market shifted from a seller's to a buyer's market, replacement demand became dominant, while customers were becoming more mature thanks to the availability of more and better information, hence they were also more demanding in terms of quality, reliability, safety, residual values, elements of customization and so on. The extreme acceleration in the growth of information and communication technologies (ICT) and the rise of social networks have altered the quantity and quality of information available among customers, and the mechanisms governing advertising and shopping. The greater level of transparency has dramatically reduced the information asymmetry between customers and dealers (e.g. with respect to the dealer margin and the presence of additional manufacturer campaigns), while electronic media stimulate aggressive comparison-shopping and can drive margins down.

While production started to chase growingly differentiated customer needs through a set of multiplying segments and niches, the higher degree of homogeneity among quality and reliability standards of vehicles triggered more attention towards intangible elements revolving around the purchase and ownership of a vehicle. This has determined the greater importance of soft elements such as: customer care, brand image, customized relationships, provision of complementary services and so on. As a result, distribution players (franchised dealers) have become more and more important as customer touch-points.

What happened upstream? Over recent decades manufacturers have embarked in massive reorganization efforts towards more efficient and flexible chains, adopting the lesson of lean manufacturing and lean component supply. This trend was vividly promoted by a research undertaken by the IMVP (International Motor Vehicle Program) that identified the set of principles lying at the basis of Toyota's superior performance – in terms of efficiency, quality and flexibility –, which acted as a world-class benchmark (Womack et al. 1990). But the most striking thing is how from the standpoint of manufacturing and component supply, many indicators show evidence of a performance improvement, whereas looking at the distribution arena the situation appears quite baffling.

Figure 1 shows the trend in the levels of stock of finished vehicles at the market level, in the four major European markets (France,

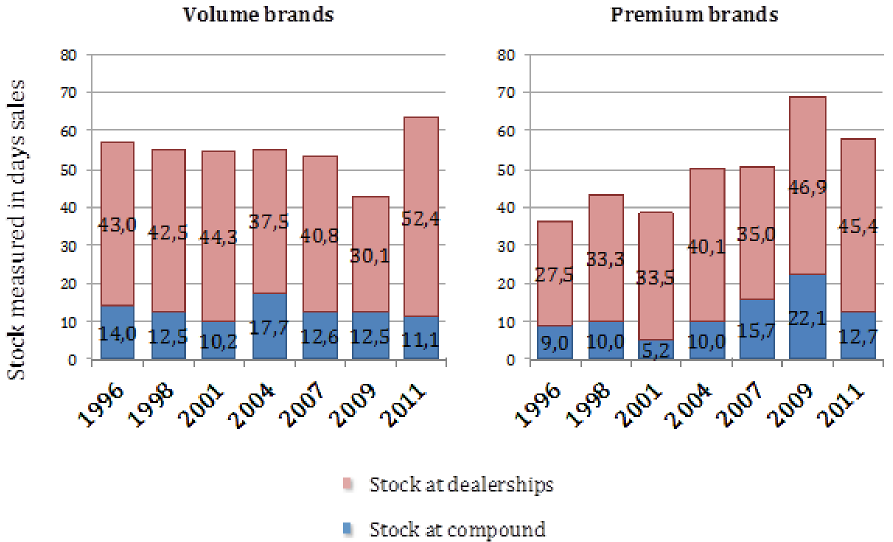

Fig. 1. Market-level stocks for volume and premium brands.
Source: ICDP – data for France, Germany, Italy and UK.

Germany, Italy and UK). Part of this stock is kept in manufacturer-controlled compounds (vehicles that have been imported to the target market), the rest is located at dealerships. For volume brands, over the last 15 years the level of stock at compounds, measured in days of sales, has reduced only marginally (from 14 days to 11.1). The stock at dealer level has remained relatively flat at around 40 days, with the exception of two swings in 2009 and 2011 due to rather favourable and unfavourable levels of demand respectively. But the situation is even more striking when one looks at the levels of stock for premium brands, with both compound and dealer stocks increasing considerably over the years.

It should be noted that a non-lean distribution can act as a serious bottleneck for the whole system and reduce its overall performance, for example by eroding advantages obtained in manufacturing in terms of product variety of lead time. For example, a lead time advantage in production, which is rather complex and costly to achieve, can be offset by inefficiencies downstream. Similarly, production leaps in terms of variety and ability to build to order and to customer specifications loose importance if high stock levels are in place, driving dealers to push sales from existing stock (Waller 2012).

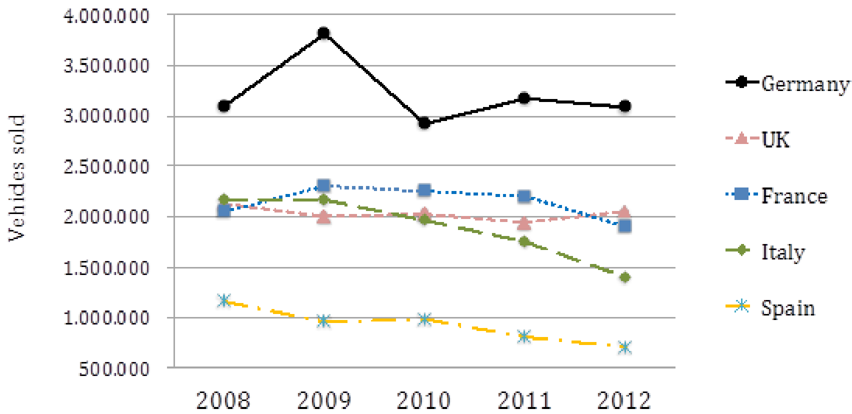

Figure 2. Sales trend in major European markets.
Source: ACEA.

We can therefore argue that the transformation of the value creation architecture of the automotive chain has just started to affect distribution that still holds considerable potential (Buzzavo 1997; Maxton, Wormald 2004; Dietl et al. 2009), and this has become a more urgent task given the dramatic fall in sales volumes in major European markets that took place more recently due to the financial crisis and recession (see figure 2).

This situation of «system mismatch» between the upward and downward portions of the automotive system is causing distribution to grow in importance within the strategic agendas of OEMs, with considerable delays to be addressed.

4 Changes at the economic level: dealer margins

The transformations in the automotive industry (saturated market and falling demand, intense competition, developments in ICT) have contributed to make the distribution business more complex. The increase in sophistication pushed dealers (with their human resources, their procedures, their services) to become more professional and supportive of customer needs, usually incurring in higher costs. Intra-brand competition has eroded margins requiring dealers to gain efficiency (i.e. reduce costs) and to boost other profit generators (such as service, parts, used cars, finance, etc.).

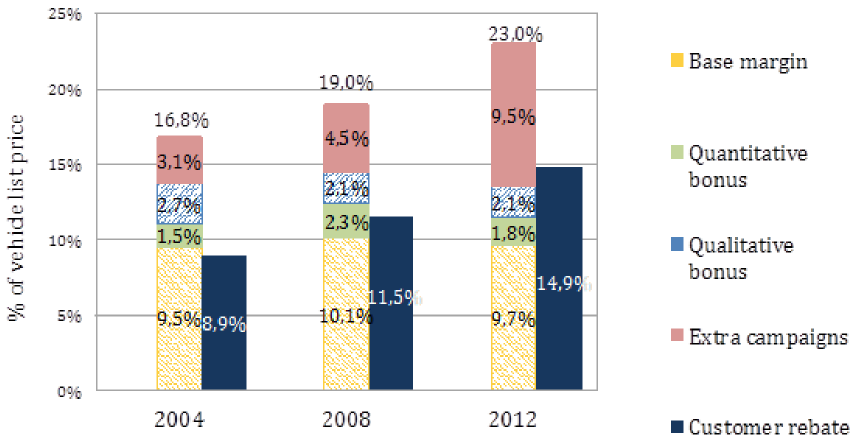

Figure 3. The structure of dealer margins.
Source: Quintegia (2013).

The intensity of the competitive confrontation has started to induce manufacturers to reduce their cost structures on all sides. Besides intensifying the focus on the reorganization of their manufacturing and component chains, they have started to reduce new car selling margins. Broadly speaking, the industry has shifted from a typical gross dealer margin of over 15% in the mid-1990s (plus some extra bonuses, mainly volume-related) to a gross dealer margin in the order of 10% in recent years, with a vast increase in variable margin elements (often representing one third or more of the total available margin). The variable margin elements are linked to the dealer's ability to fulfil certain requirements, such as, for example, customer satisfaction levels, additional brand-related investments and procedures, customer information reporting, and so on, with schemes that can become highly complex (Buzzavo, Montagner 2005). The increased competition has driven up rebates to customers, wiping out much of the gross margin, so that dealers end up covering their costs (and possibly trying to earn a profit) on the variable component, which results in a greater uncertainty. Figure 3 shows how margin structures have changed during the past decade (data refer to volume brands in the Italian market).

Over the recent decade the total gross margin available (including the base margin plus additional bonuses depending on quantitative and qualitative elements) has remained rather stable between 13% and 14%. What changed much over the last decade is the size of the rebate to cus-

tomers (due to oversupply versus a depressed market, triggering strong intra- and inter-brand competition) and the size of extra sales campaigns that manufacturers must activate in order to keep dealers alive. In fact, additional incentives in the form of extra sales campaigns must grow to compensate for increased rebates to customers, so that the actual gross margin (the base margin plus bonuses plus campaigns minus the rebate to the customer) hovers around 7-8%. From a general standpoint, such gross margin is broadly sufficient to cover the structure of dealer costs, generally in the order of 7%, leaving approximately a 1% return on sales (ROS). But this line of reasoning remains theoretical, because the dramatic fall in demand has considerably reduced the average sales throughput of franchised dealers. In other words, while the gross margin has remained relatively stable (thanks to the support of extra sales campaigns), the losses in volumes have made the business unsustainable, so that many dealerships have been drowning in red ink. As a matter of fact, by looking at the portion of total sales that are retail sales (hence excluding direct sales by manufacturers for example to rental and leasing companies, large fleets, etc.) we see that the total volumes sold by dealers in Italy have reduced from circa 1.7 million vehicles in 2004 to 0.9 million vehicles in 2012 (source: Quintegia). It should be noted that while we are now focusing on data referring to the Italian market, this trend is broadly similar to other markets.

5 Changes at the structural level: retailer concentration

This kind of economic pressure has triggered a trend towards retailed concentration: more and more dealerships cannot survive in the new economic situation while bigger (and more financially solid) players look for scale economies through some acquisitions. Such concentration has been partly facilitated by manufacturers who, beginning to recognize that they had pursued strategies of territory coverage that led to too many intermediaries during stages of market growth, have started aiming at a lower number of more solid entrepreneurs with a stronger equity structure and more professional facilities and systems, capable of playing a better role as retailing partners (Buzzavo 2008).

The concentration process has accelerated further in recent years due to the enormous pressures created by massive drops in sales volumes. As shown in Figure 4, in Italy the number of sales outlets has decreased by 15% over a decade (from 6,130 units to 5,215 units). It should be noted that over the last decade some brands – particularly Asian ones – have entered the market and/or expanded their distribution networks: as a

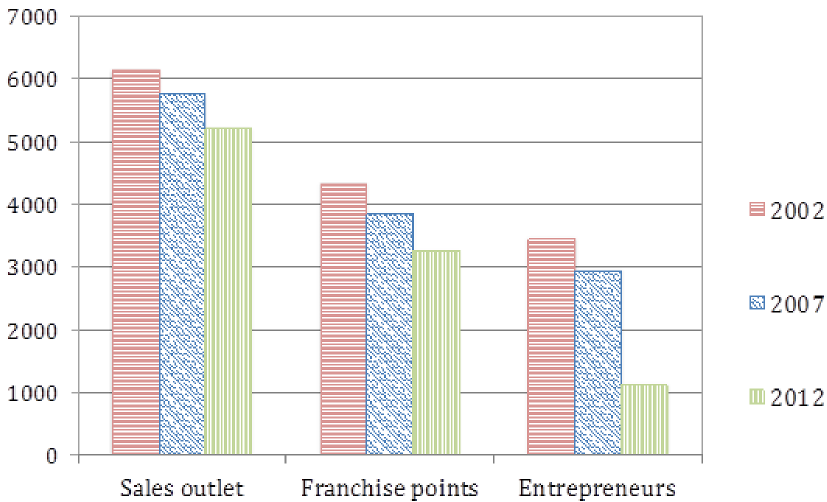

Figure 4. Trend in franchised dealerships (Italy)
Source: Quintegia (2013)

consequence the downward trend is even greater if we look just at the sales outlets of more mature networks. But the concentration process is much more visible at the level of franchise points (-25%) and at the level of the number of entrepreneurs who control them (-35%), down to 2,250 units.

As we have seen, the ongoing concentration process is quite dramatic: one Italian dealership entrepreneur out of three has exited the distribution industry over the last decade. It is also interesting to look at the degree of concentration in sales by the largest players operating in the market. Figure 5 shows the market share (in volume terms) of the top10 and top50 dealers in the Italian market. Both shares have increased by about 60% in the last decade.

It should be observed that the degree of concentration, albeit growing, is still rather low when compared to other industries. We would argue that there are a few reasons behind this (Buzzavo 2008). On the one hand the automotive distribution industry has been influenced by a quite peculiar regulatory framework («Block Exemption») that defines the scope and operation of vertical restraints (Tongue 2010) that led manufacturers to prevent too much consolidation among retailers so to keep enough control over the distribution system. On the other hand it should be said that scale economies at the dealer level are rather modest: there are no significant scale advantages in purchasing (at least for

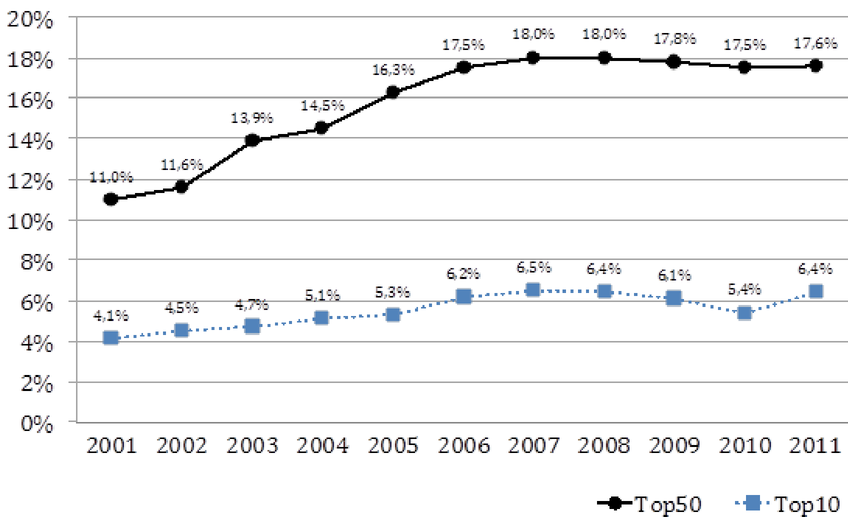

Figure 5. Market share (by volume) of top 10 and top 50 dealers in Italy
Source: ICDP, Quintegia (2013).

the time being) and it is not easy to achieve synergies across different sales outlets and different brands, at least not in the same level as for other industries. This rather low level of concentration compared to other industries is consistent with a persistent nature of family-owned businesses that still characterizes automotive distribution across many markets worldwide.

6 Manufacturer strategies and the distribution dilemma

Manufacturers, who in the past saw retailer concentration as a threat to their degree of control over the distribution system, are starting to see the benefits of retailer concentration (hence of a reduction in the number of intermediaries), although the strategic direction is not yet well established across all players. Some manufacturers (particularly French and German ones and with specific emphasis in their domestic markets) have tried to maintain a certain degree of control by using dealerships of their own (factory-owned stores). But this strategic option of direct distribution is an exception in Europe, with just 3% of dealerships being factory-owned (and none in the USA, due to very strict franchise laws that protect dealerships). The few existing cases often serve as a solution

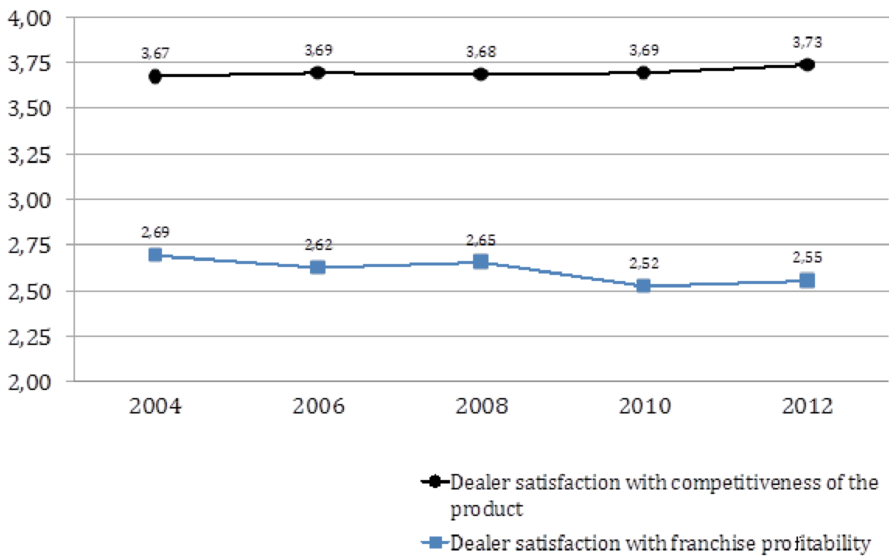

Figure 6. Dealer satisfaction in their relationship with manufacturers (Italy).
Source: DealerSTAT.

for high-cost metropolitan areas (where costs would be too high for an independent entrepreneur) and/or as marketing and retail laboratories in order to maintain a touch-point with the end market.

While factory-owned stores do not seem a viable solution, at least for a reasonable time span, manufacturers are quite interested in exploring the options to leverage Internet-based channels that could provide them with greater potential for customer access and dialogue. So far, Internet-based approaches have not yet shown a solid case on how to establish a new distribution system for manufacturers: in most cases these tools act as important complements to dealer activities rather than as substitutes of their role in the chain (Bailey 2012). Future evolution will depend not just on technological aspects but rather on a set of elements including customer attitudes and legal frameworks. On the whole, it seems that both through owned-stores and through digital channels manufacturers do not seem in a position to have a strategic alternative to the franchised distribution channel, at least for a while. Besides the financial and organizational burden associated to running a direct distribution scheme, there are important issues relating to holding the necessary competences that retailing and all the relevant activities involve.

One interesting insight into the disequilibrium that has grown inside the distribution system can be grasped by looking at dealer satisfaction data in their relationship with manufacturers. As previously highlighted, industry transformations have placed more and more emphasis on the role of the dealer as a value-creating and value-adding player in the automotive chain (Parment 2008). This has driven dealer satisfaction to become more and more important to ensure the dealer's commitment towards brand support and the pursuit of customer satisfaction (Buzzavo, Pizzi 2005; Nadin 2009). As figure 6 shows, over the past decade Italian dealers have been rather satisfied with the competitiveness of the products of the brands they represented (with a rating constantly above 3.5 on a 1 to 5 scale with 5 being the highest level of satisfaction), while the satisfaction with the profitability of their franchise has been receiving a negative rating (below 3, that represents neutrality), and, more importantly, with a downward trend.

The evolving features of the industry have led to a situation that undermines the sustainability of the franchised distribution system and calls for more substantial action. The next part looks in more detail at the business model of franchised dealers and how it is evolving.

7 The traditional business model of franchised dealerships

Business models have become a popular concept both in the strategic management literature and among practitioners over the recent decade. To a considerable extent the growing diffusion of the concept stems from its capability to represent a more operational translation of the notion of strategy and to better capture the way in which the overall architecture of the business generates a profit. Most contributions in academic literature, starting from the seminal works on the subject by Timmers (1998), Amit and Zott (2001), and Magretta (2002), revolve around the fact that a business model is broadly based on three major elements: «who are the customers», «how is the company intending to provide value to them», and finally «how is the company extracting value out of it». As many have pointed out, this approach inevitably finds its roots in the works of Drucker (1954) when defining a business.

Early introduction of the business model category took place within the domain of information management and ICT contexts. As a matter of fact, the term grew very popular during the Internet boom in the 1990s, and it became a building block of almost every company operating in the Internet environments during the fervid years of the e-business revolution. At that time, it was typical for companies to develop innova-

tive ways of arranging production and distribution activities, and the business model category acted as a sort of interpretative (as well as normative) element to discuss the way in which the firm was going to generate value and extract it from target customers. Business models then rapidly spread outside e-business contexts and gained a key spot within the theoretical and practical frames of business strategy (Osterwalder, Pigneur 2010; Teece 2010).

The usefulness of a business model, however intended, is to draw attention towards the identification of the basic constituents of a strategy, and particularly of the way in which a firm does business at the system level: how it creates value and how it aims at capturing it from its target market. Within the scope of this work we can consider a business model as made of the following components:

1. the target: who is the target of the company;
2. the offering: what is the company providing the intended target with;
3. the chain of processes involved, both inside and outside the company, that are generating the offering in question;
4. the profit model: how a company is extracting value from the target customers in a profitable manner.

As conditions change in a given industry, firms are required to adjust their business models accordingly: this implies taking decisions that determine changes in one of the components or in more than one, determining a new combination. This leads to situations of business model innovation or «strategy innovation» (Casadesus-Masanell, Ricart 2011) where a recombination takes place in order to achieve dynamic consistency with the new context.

The automotive distribution system provides an interesting opportunity to look at how the typical traditional business model of automotive dealerships (that represent the key link between manufacturers and customers) must evolve in accordance with the changes in the competitive scenario. The business model that has characterized the rise of the dealer system is no longer sustainable in the new competitive context: this determines a drive towards business model innovation along some key dimensions.

Let's now draw some considerations on the characteristics of the traditional dealership business model. It should be underlined that this exercise implies some necessary simplification. As a matter of fact, when considering the entrepreneurial foundations of the business, it is not surprising that when one looks in close detail at franchised dealers one finds a considerable variation in terms of size (units sold, total turno-

Element	
Target (customers)	New car customers within the sales territory
Offering (product provided)	Sale of new vehicles of the represented brand (with selective provision of after-sales support, parts sales and used cars)
Chain (value building)	Order management, finance management, delivery management
Profit model (value capture)	Predominantly the margin on new vehicle sales (considerably influenced by the manufacturer)

Figure 7. Traditional dealership business model (standard features)
Source: own elaboration.

ver), number of brands represented (size of brand portfolio), number of outlets, geographic scope, ownership and governance structure, not to mention management style, rate of adoption of new technologies, etc. This means that franchised dealers, even when operating under the umbrella of the same manufacturer brand, feature a considerable degree of variation and are far from homogeneous. Also, variations exist across different European markets (Buzzavo, Volpato 2003).

All this considered, and bearing in mind this necessary simplification, we could sketch a standard model of the building blocks of the traditional business model adopted by franchised dealers that is quite representative of the Italian situation (see Figure 7).

Automotive dealerships are assigned exclusive distribution rights for vehicles of a given brand in a territory: traditionally, sales territories have enjoyed a considerable degree of protection, so that customers in the area, unless they were prepared to travel to great distances, represented a sort of «natural» market. The dealers' offering has been typically based on the sale of vehicles, with the provision of after-sales service (warranty work, maintenance, repair) and parts generally featuring as a support activity to the sale. It must be noted that dealerships have been exploiting some additional businesses for some time. This is the case of service (that for example has traditionally been a stronger component of German dealers), parts (that has represented an important stream of revenues for some Italian dealers) and used cars (where UK dealers tended to be more actively involved). But while these streams

have existed for a while and have acted as profit generators capable of supporting down-cycles, they have generally been subservient in business model design to the fixation on «moving the metal», particularly in the eyes of the manufacturers.

It should be noted that given that dealers' focus has traditionally been on new car sales, a wide network of independent players operating in vehicle servicing and repair has grown to meet the demand that has increased along with the increase in vehicle park. Similarly, the limited degree of involvement of franchised dealers in the used car business has allowed many independent players to grow in this sector.

On the whole, the profit model is centred upon the margin that is made on the difference between the selling price (that the customer pays) and the cost paid to the manufacturer: such margin, after the costs (structural and operational ones) borne by the dealer, generates a profit (it should be noted that in Italy the reliance on new car profits is considerable, while in other markets such as Germany and the UK dealers had started earlier on to support their companies through after-sales profits).

8 Elements of business model innovation

As we have said, many pressures have undermined the viability of traditional dealerships, creating pressure to transform their business model (Amit, Zott 2012). We will now explore how individual elements of the business model are evolving in order to adjust to the new context.

With respect to the *target*, the new business model requires dealers to become much more proactive, to operate a finer level of segmentation and to broaden the target.

The attitude of being more proactive, in line with the much diminished territorial protection, implies the use of more professional marketing techniques (such as geo-marketing) plus the exploitation of new approaches that move away from mass-marketing in favour of targeted initiatives, also levering the potential of new technological tools (i.e. using social media). Secondly, a finer level of segmentation depends on the need to investigate in greater detail the profile of the customers, their needs, and their willingness to pay for specific products and services. This means a major departure from a traditional way (usually reinforced by less professional salespeople) of conceiving customers as subjects merely in search of the lowest possible price. While such a view of customers induces greater discounts, at the expense of retained margins, it also inhibits the search for opportunities to extract customer's willingness to pay by providing a more tailored response to

their preferences and offer them value elements other than price in the overall transaction with the dealership. Broadening the target relates to the need for dealerships to consider not just new car customers as targets, but also used car customers and service customers, in order to feed their customer portfolio and business activities that have evolved from secondary to new car sales to being fundamental.

With respect to the *offering* provided, the major building block in innovating the business model is a re-conceptualization of the dealer business, where new car sales are not the dominant portion (along with other elements such as accessories) and where the dealership is a portfolio of businesses revolving around customer mobility. This implies the need to take advantage of business possibilities that include new car sales, used car sales, finance and insurance provision, service and repair work, parts, accessories, sale of extended maintenance packages, rental services, and any other possible revenue stream associated with the above. This determines a gradual reduction in the dealership's dependency on the new car business that is on the one hand highly volatile, and on the other hand highly dependent on the manufacturer. The high volatility is associated with the swings in demand in line with key variables such as disposable income and consumer confidence. The high dependence on the manufacturer and the low degree of dealer control over the new car business is considerable because: volumes are heavily determined by the market and pushed by manufacturer objectives, buying prices are set by the manufacturer, selling prices are set by the manufacturer (and influenced by market conditions, in terms of discounts), operating costs are heavily influenced by manufacturer policies (in terms of required brand standards).

With respect to the *chain of activities*, dealers must adapt their activities and processes to the nature of the offering that has been just described above. While the traditional business model requires dealers essentially to focus on managing the order-to-delivery pipeline, in the new context dealers must enhance their ability to manage processes revolving around customers in a proactive way (e.g. lead management, geo-marketing techniques, etc.). For example, they should improve their ability to manage customer data from prospect to sale, they should develop capabilities to manage the processes involved in the broader set of ingredients included in the automotive offering, and so on. To some extent, the new situation is pushing dealers to evolve from «hunters to farmers» (Kiff 2000). While in the traditional business model the dealer is basically required to be a sort of passive subject implementing with attention to detail the policy specified by the manufacturer, in the new situation the dealer must become an active agent defining its own set of processes, steps and indicators for the more complex set of situations involved.

Element	*Traditional*	*Innovative*
Target	New car customers within the sales territory	More proactive attitude (also outside the territory), finer segmentation (aiming at willingness to pay) and broader target (i.e. used cars, services, etc.)
Offering	Sale of new vehicles of the represented brand (with provision of some after-sales support)	Broad mix of businesses to stabilize business, increase strategic autonomy and increase share of customer wallet
Chain of activities	Order management, finance management, delivery management	Prospecting and lead management, database management, customization capabilities, follow-up procedures
Profit model (value capture)	Margin on new vehicle sales (considerably influenced by manufacturer)	Margins on all business segments (less influenced by manufacturer and more dependent on autonomous choices)

Figure 8. Features of business model innovation in automotive dealerships
Source: own elaboration.

This leads to some considerations on the *profit model* at the dealership: with the development of other business streams, dealers reduce their dependency on manufacturers and can exploit varying ways of capturing revenues (and profit margins) with greater control, where the shape of the business portfolio to pursue becomes an integral part of the dealer's own strategy depending on its capabilities and on the exploitation of market opportunities. While in new cars the structure and the operating standards and procedures are heavily determined by the manufacturer (whose interest is often to enhance the branded experience rather than to ensure an adequate level of dealer profit), in the other set of businesses dealers can take more autonomous decisions in their cost structures and operating processes. In other words, their structural choices and processes will be shaped on the basis of the expected revenue streams, so to ensure (at least in principle) the desired profit margin. To some extent, more and more dealers aim at gaining a

greater share of the customer wallet, often adopting a logic of business provision «from cradle to grave» by aiming at all the revenues (and profit streams) related to all the spending revolving around the automotive purchase and ownership experience throughout their lifetime (Bloemer, Lemmink 1992; Huber, Hermann 2001).

Some of the most relevant dynamic capabilities (Teece et al. 1997) for automotive dealers seem to reside on the ability to continuously adjust the business offering to the appropriate customer segments. The fact that the business contains a highly local dimension makes it difficult for manufacturers (or large retail chains) to appropriate the value that lies in the transaction (unless they manage to achieve considerable volume discounts in purchasing). Clearly, dealers must invest in the processes and information systems in place to accumulate (and use as necessary) the relevant customer information, with more effective learning capabilities (Nonaka 1991).

On the whole, effective dealers are asked to manage the set of interrelated businesses by achieving a proper cross-functional fit by taking advantage of complementarities, so that they become less and less «local vehicle shifters» on behalf of the manufacturers, and more and more «intelligent customer managers», acting as a key link in the automotive distribution chain.

9 Perspectives

We have tried to operate some simplifications by sketching out the common drivers that are affecting the transformation in the dealership business model.

There are some important issues to be addressed in perspective.

The first issue relates to how automotive distribution will evolve in different geographies. Europe is still not a single market, and more distant markets are undergoing different stages of development. In China, for example, the strong growth in demand has triggered an explosion in the number of dealers that somehow mirrors what has happened in mature markets over the last century. Different geographic situations and market life-cycles will determine different paths of evolution for automotive distribution.

The second issue relates to the pace of the transformations. There are some critical elements that characterize the auto industry as rather different from other industries (i.e. high average unit price, low frequency of purchase, high safety implications, considerable need for after-sales care, need to trade-in a used car, etc.). To a great extent, these differenc-

es have provided a sort of insulating mechanism from transformations that have affected retailing in general. How automotive retailing will be shaped by leaps induced by the digital revolution and to what extent it will mirror developments in other sectors cannot be fully grasped at the moment and remains to be seen.

The last point relates to the extent to which the degree of differentiation across business models will be driven by the type of brand represented (i.e. volume, premium, low-cost). As a matter of fact, manufacturers have varying degrees of influence to coordinate the whole system architecture depending on a set of factors including the strength of the brand (Dietl et al. 2009). As discussed throughout this chapter, automotive dealership entrepreneurs have been willing to accept a subordinate position in the past in exchange for satisfactory profit levels. Now that those profits have been eroded by the new context quite some time ago, the manufacturers' capability to retain a significant degree of control over the distribution chain rests on their ability to adjust the economic foundations of the distribution business model before it is too late.

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