



DNDS

Developing New Distribution Skills



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INTERNATIONAL CONFERENCE OF THE DNDS PROJECT – Developing New Distribution Skills

*Seeking Dealership Excellence
Through Research And Training
Sales, Marketing, New Media, Finance and Management in the Automotive
Industry*

Università Politecnica delle Marche | Ancona | Italy

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**Università Politecnica delle Marche | Piazzale Martelli 8 | Ancona | Italy
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*Conference Proceeding
by
Christian Stadlmann and Gian Luca Gregori*

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Seeking Dealership Excellence Through Research And Training

Sales, Marketing, New Media, Finance and Management in the Automotive Industry

Nature and scope of the Conference

The aim of the Conference is to seek dealership excellence through research and training sales, marketing, new media, finance and management in the automotive industry.

The automotive industry (i.e. car and motorcycle industry) is often a benchmark for other industries and anticipates developments. Its distribution is mainly organized through small and medium sized enterprises. However, there is a rising number of automotive dealers in economic difficulties each year in Europe. Moreover, environmental changes are strongly influencing automotive customer needs which force dealers to adapt to the rapid changes in the consumer market. Topics like green mobility, Web 2.0, generational changes, Basel III, rent a vehicle, etc require new skills and a broader knowledge of dealers.

Topics

- *Best Practices and Case Studies from Dealership Training*
- *Training and Development: Needs Identification, Instruction Methods*
- *Marketing, Sales, and Dealership Management in the Automotive Industry*
- *Competitive Analysis and Benchmarking in the Automotive Industry*
- *Relationship Management: Producers and Dealers*
- *Marketing and Sales Challenges in Dealer Management*
- *New Services and New Product Development for Dealerships*
- *Customer Relationship Management for Dealers*
- *Marketing Communications, New Media and E-Business for Dealers*
- *Addressing Block Exemption Regulation in the Dealership Development*
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Ambivalent aspects of parallel imports in international marketing

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Abstract

This paper focuses on the problems faced by international manufacturing firms (which sell their products to a variety of foreign markets) because of the development of parallel imports which result in unauthorized distributive flows between countries. My objective is to evaluate the consequences of these unauthorized flows of distribution on the manufacturing firm's economy and to reflect on the lines of action which can be taken up to address the threats (arising from parallel imports) or the advantage that these flows can produce.

I have only focused on lines of action affecting the elements of the international marketing mix (distribution, price, product, and communication). This paper does not address aspects of a more general nature (although of great interest) related to the social desirability of parallel imports, the legitimacy of these flows in the legal systems of the other countries, nor to the possibility of firms to use legal action.

The development of these arguments is based on a critical analysis of the results that have emerged from several research studies in major marketing and management academic journals at international level in recent years.

This analysis shows that parallel imports are not always perceived as a negative phenomenon by the firm's management. In some cases the unauthorized distributive flows may have a positive effect on the firm's performance when they allow the enterprise to distribute to specific customers in order to segment the market and to overcome certain barriers to enter specific foreign countries.

Keywords: parallel imports, international pricing, international channel of distribution

Introduction

In the marketing literature, “gray market channels” are those situations in which trade-marked products are sold through channels of distribution that are not authorized by the trademark holder (Duhan and Sheffet, 1988). These commercial flows can occur both within the same market and across markets.

In the first case, the manufacturer-authorized channel members sell trademarked products to unauthorized channel members who then distribute the products to consumers within the same market. This practice is generally labelled “channel flow diversion”. For example, quantity discounts may motivate certain dealers to purchase larger quantities of a product than they need and sell the extra units at a profit through gray market channels within the same market.

In the second case, trademarked products are introduced and marketed in a given market by an unauthorized dealer who has purchased the products from traders in other markets. These gray market channels that occur across markets in an international setting are labelled “parallel imports”. “Manufacturers often produce and sell products in more than one country and establish a network of authorized dealers in each country. Parallel importing occurs when goods intended for one country are diverted into an unauthorized distribution network which then imports the goods into another country (Duhan and Sheffet, 1988; Lowe and McCrohan, 1989). In particular, this paper addresses some relevant economic and managerial aspects of “parallel imports”.

Although gray market activity ebbs and flows as exchange rates, price differentials and supply conditions change, various surveys confirm the increasing incidence and scope of gray market channels in many industries (Palia and Keown, 1991; Micheal, 1998; Myers and Griffith, 1999; Berman, 2004).

As stated by Antia et al. (2004), gray market channels exist “for tangible products (lumber and electronic components) and intangibles (broadcast signals, IPOs); for massive goods (automobiles and heavy construction equipment) and light, easily-shipped products (watches and cosmetics); for the mundane (health and beauty aids) and the lifesaving (prescription drugs)”. The phenomenon is particularly widespread in the field of personal computers (Kpmg, 2003). According to experts, in the European Union, the unification of market, the erosion of trade barriers and a more efficient logistics infrastructure will help to determine a significant increase in the size of gray market trade flows. Moreover, in some non-European countries, sales in gray channels of certain categories of products exceed those made in the authorized distribution network. This occurs, for example, in Malaysia, where mobile phones purchased from parallel traders account for 70% of total sales, and in India, where sales of personal computers sold in the parallel channel exceeds that achieved in the authorized network with a ratio of two to one (Antia et al., 2004). A significant impetus to the development of parallel channels is also due to the increasing widespread of the Internet and of intermediaries operating exclusively on the World Wide Web (Myers, 1999; Berman 2004).

The issue of parallel imports can be approached from different perspectives of analysis, such as that of the manufacturer, the dealer, the parallel importer or the final consumer. This paper focuses on the problems faced by manufacturing firms which sell their products to different foreign markets as a result of the development of gray market channels. My objective is to evaluate the consequences of these unauthorized flows of distribution on the manufacturing firm’s economy and reflect on the lines of action which it can take up to address the threats (arising from parallel imports) or the advantage that these flows can produce.

My focus is only on those lines of action that affect the elements of the international marketing mix (distribution, price, product, and communication). This paper does not address topics of a more general nature (although of great interest) related to the social desirability of parallel imports, the legitimacy of these flows in the legal systems of other countries, nor to the possibility for the firms to resort to legal action (Clarke III and Owens, 2000). The arguments have been developed by means of a critical analysis of the results that have emerged from several research studies in major academic marketing and management journals at international level in the last decade.

Some reminders on the concept of “parallel imports”

Parallel importing or gray marketing occurs “when an authentic branded product comes into the domestic market through marketing channels that rival the product’s authorized channels” (Weigand, 1991). Therefore, parallelly imported (or gray market) goods are “genuine branded merchandise distinguished only by their sale through channels unauthorized by the trademark owner” (Buklin, 1993). These goods “appear to be, and in most cases are, physically identical in every way, including their trademarks” (Cross et al., 1999). Therefore, price is the major difference. Parallel imports are the result of arbitrage in which companies buy a product in the market and sell it in other markets, benefiting from the prevailing price differential.

Assmus and Wiese (1995) argue that parallel-imported goods “typically are international products with a unique brand name, having high international price difference with low costs of arbitrage. The costs connected with the arbitrage of goods from one country to the other are transportation costs, taxes, and costs for modifying the products, such as changing the usage instructions for pharmaceutical products”. According to the direction of unauthorized trade flows with respect to the country in which the manufacturer is located, the two authors identify three types of international gray market: parallel importation, if the product is priced lower in the home market than in the foreign one; reimportation, if in the foreign market the product is cheaper than in the home market, and lateral importation, if there is a price difference between two countries and the product is not produced in either one of them. In this paper, we use the term “parallel import” or “gray market” without distinguishing between the three situations as considered by Assmus and Wiese (1995).

Parallel imports should not be confused with the marketing of counterfeit products, with fraud or with any other similar marketing activities of an illegal nature. As remarked by Duhan and Sheffet (1988) “counterfeit goods are a clear violation of the trademark owner’s rights in that the products are not genuine and do not originate from the trademark owner”. They are essentially reproduced copies that are identically packaged, including trademarks and labelling so that the consumer thinks that they are the genuine items (Ang, 2000).

Therefore, transactions involving counterfeit products are strictly shadow marketing transactions because the product is illegal. Instead, “in the case of parallel importation, the product itself is a genuine trademarked product. The issue of the legitimacy of parallel imports does not involve the legality of the products, but the legality of the those by which the product is distributed” (Duhan and Sheffet, 1988). Gray markets are not always considered legitimate in the legal systems of the countries in which parallel channels occur (Clarke III and Owens, 2000; Prince and Davies, 2000; Maskus and Chen, 2002).

1. Main reasons for parallel imports

Three general conditions were considered necessary for the development of international gray distribution channels (Duhan and Sheffet, 1988). They are: *a) availability of the product(s) in other markets*; *b) low level of trade barriers* (tariffs, transportation costs, legal restrictions, etc.) that allow parallel importers to easily move product(s) from one market to another; *c) existence of large price differentials among various markets for the same product(s)* that provides the basic motivation for parallel imports.

A careful analysis of this phenomenon shows that the factors which favor the development of international gray markets are manifold. In particular, in each specific situation parallel imports may be due to various reasons. The knowledge of these specific reasons is essential when the industrial firms intend to make and implement appropriate strategies to hinder or keep under control the development of this phenomenon. The main reasons found in literature and business practices relate essentially to the aspects analysed below, which are often closely interconnected.

1.1 Distribution strategy adopted by the industrial firm

The problem of gray markets mostly affects those firms that adopt a policy of selective and exclusive distribution channels. These distributive strategies are particularly appropriate when in the consumer’s purchasing process the role of *pre-sales services* (offered by the retailer) is fundamental in determining final

customer satisfaction. This occurs, for example, in the buying processes of problematic consumer goods or of complex industrial goods. The exclusive and selective territorial agreements in distribution channels may result not only in a reduction of competition among those retailers that sell products of the same brand (*intra-brand competition*) but also in an increase in the efficiency of the whole channel, especially when retailers provide services from which other retailers of the same product may benefit (Dutta et al., 1999; Gonzalez-Hernando et al., 2005).

The purpose of these distributive strategies is to ensure high margins for retailers and to encourage them to provide consumers with better service so as to keep a wider assortment of products and/or to maintain an exclusive-quality image of the products (Cateora and Graham, 1999). The industrial firm's need to guarantee sufficiently high final prices of the products – in order to cover all the authorized retailers' operating costs (including marginal ones) – generates significant opportunities for more efficient traders, which could be motivated to feed gray distribution channels (Pellegrini, 1999). The choices of exclusive and selective channels of distribution have a precise objective of creating a *monopolistic distributor* of a given brand in a given geographical area in order to increase the chance of letting the retailer to obtain all the benefits of the services (it has previously provided to consumers) and would therefore be more motivated to offer them (Dutta et al., 1999; Mathewson and Winter, 1984; Sas and Saurmann, 1993). As such, the products are provided only to authorized distributors which, in turn are contractually obliged to provide some pre-sales services to customers and to sell only to final consumers or to other authorized distributors (González-Hernando et al., 2005). It is believed that in this way the system is foolproof, because, in theory, none of the products will filter out into the hands of unauthorized distributors.

1.2 Industrial firm market-differentiated price policy

In the marketing literature, the idea that parallel imports develop when there are significant differences in the selling prices of the same product in different domestic markets is well-established. These differences may be due to a variety of factors, such as the industrial firm's geographical differentiation of the product's prices, the formation of imbalances between supply and demand in certain domestic markets, exchange rate fluctuations and so on. The existence of significantly different market conditions in different domestic markets often drives companies to adopt a *geographical discrimination price* policy for their products (Diller and Bukari, 1994).

Empirical studies on this topic show a widespread trend of industrial firms to *set different prices in different domestic markets for the same product*, depending on factors such as per capita income, elasticity of demand to price changes, the amount of taxes on product that is being commercialized, the intensity of competition, market share objectives, etc. (Yang et al., 1998; Berman, 2004). In the European automotive industry for example, the use of a *single currency* and the *liberalization of commercial distribution* have not yet led to a complete convergence in the final sale price levels of the products among the various domestic markets, and the price differences for the same new car among European countries are still important.

In a recent report, the European Commission stated that: "overall, price differences for passenger cars between Member States decreased, as observed in manufacturers' price lists. *But the differences remain big in some cases pointing to large savings for consumers shopping across borders.* Within the euro zone, the *price difference indicator remained unchanged*".

Table 1 shows pre-tax price differences in percentage between the most expensive country and the cheapest country in the Euro zone for the same models of the top-selling brands. It can be observed that the small segment cars (Fiat Punto, Renault Clio, Peugeot 207 and VW Polo) and the medium segment ones (Peugeot 308 and Renault Mégane) have exceeded the percentage difference by 30% in recent years. On the other hand, for certain models, such as the BMW 320D, these differences have gone down by 9%.

TABLE 1: PRE-TAX PRICE DIFFERENCES IN PERCENTAGE BETWEEN THE MOST EXPENSIVE COUNTRY AND THE CHEAPEST COUNTRY IN THE EURO ZONE FOR A SELECTION OF TOP-SELLING CARS*

Instant of detection	1/01/2009	1/01/2010	1/01/2011
Car models			

Small segments (A and B):			
Peugeot 207	32.7%	39.7%	36.9%
Renault Clio	44.9%	32.3%	39.5%
Fiat Grande Punto/Punto	30.4%	29.2%	44.3%
VW Polo	26.8%	28.1%	34.4%
Ford Fiesta	17.9%	24.3%	25.4%
Medium segment (C):			
Peugeot 308	31.7%	36.0%	36.1%
VW Golf	25.8%	27.4%	24.4%
Ford Focus	28.7%	27.9%	23.8%
Renault Mégane	51.6%	26.8%	30.3%
Audi A3	17.4%	18.1%	23.4%
Large car segments (D, E and F):			
VW Passat	24.1%	28.1%	31.8%
Mercedes C	12.8%	14.2%	17.3%
Audi A4	17.0%	13.1%	14.0%
BMW 320D	10.3%	10.6%	8.7%

**Price differences have been calculated on the basis of manufacturers' price lists*

Source: European Commission, 2011.

Moreover, as the European Commission recently pointed out “*cheap and expensive Member States remained broadly in the same category* with regard to their overall price levels. Greece became the cheapest country for new cars within the Euro zone in terms of pre-tax prices (average list prices in 2010 were 5.6% below the Euro zone average), followed by Slovenia (4.8% below the Euro zone average) and Malta (4.6% below the Euro zone average). In the EU, as a whole, Denmark became the country with the lowest pre-tax list prices for new cars (previously the third cheapest country). The second cheapest country was Hungary (previously ranked at number 5), followed by the UK (previously the cheapest country). Germany and Luxembourg remain the most expensive countries in the EU (with pre-tax list prices of 7.7% and 7.0%, respectively, above the Euro zone average), followed by Austria and France (with pre-tax prices of 4.8% and 4.3%, respectively, above the Euro zone average).

1.3 Exchange rate fluctuations

In this case, the differences in the sales prices of the same product in different domestic markets arises from fluctuations in exchange rates between currencies, which cannot be completely controlled by the firm.

As argued by Weigand (1991) “exchange rate fluctuations are more likely to explain gray market transactions if the rate change is swift. If a rate change is protracted, it allows the manufacturer to make price adjustments that negate a intermediary’s potential windfall profits”. An example of the role of exchange rate fluctuations and a manufacturer’s price policies in the development of gray distribution channels is shown in Table n. 2, with reference to the automotive industry.

TABLE 2 –EXCHANGE RATE FLUCTUATIONS AND INDUSTRIAL FIRM’S PRICING POLICIES AS DETERMINANTS OF GRAY DISTRIBUTION CHANNELS IN THE AUTOMOTIVE INDUSTRY.

At the end of the eighties - when the lira was appreciated, compared to many other European currencies - a large number of cars, instead of being purchased from Italian authorized dealers of different brands, were purchased (directly or indirectly) abroad and thereafter registered in Italy. According to a study by the European Commission, in 1989 there were significant differences in the final sales price of new cars between European countries, and the country of production was not normally the one with the lowest final selling price.

In Spain, for example, a Seat Ibiza was sold at a price that was 43% higher than that in Luxembourg, while a Fiat Tipo 1400 cost the Italian final purchaser 33% more than in Luxembourg (the country with the lowest final sale prices for new

cars in the European context) with a difference of about 3.8 million of lira (amounting to Euro 1,963). According to some estimates, in the first half of 1989, the number of vehicles entering the Italian domestic market through gray channels exceeded 35 thousand units. In the same year, parallel imports per year in France were from 30 to 40 thousand cars, in the Netherlands 4,000, in Portugal 13,000, in Germany and Spain around 3,000, while Belgium exported from 25 to 30 thousand of cars through parallel channels (Il Sole 24 Ore, 13/01/1990).

The situation changed completely with the depreciation of the lira in subsequent years. According to the Union of Foreign Car makers (UNRAE), in 1993, 120 to 130 thousand new foreign cars, after being assigned by the manufacturer to the authorized dealer of the Italian market, returned to their country of origin to be registered. With the depreciation of the lira, it became cheaper for many Europeans to buy in Italy even if it was their own country's car brand. Thus, for example, many Germans came down to Alto Adige (in Northern Italy bordered by Austria and Switzerland) and bought Volkswagen, Opel, Audi and Bmw cars from Italian dealers, while the French did the same thing with Peugeot, Citroen and Renault which were being purchased from dealers in Liguria and Piedmont (regions bordered by France) (Il Sole 24 Ore, 17-05-1994).

However, price differences among different markets of the same new car may in fact be due to not only *variations in the exchange rate* but also to the *pricing policies applied by the parent company in each domestic market*. In this regard, it is useful to recall the experience of parallel imports of new cars between Canada and the United States. During the latter half of the 1990s, the weak Canadian dollar and the differential pricing practices of automobile manufacturers resulted in a significant crossborder diversion of vehicles destined for the Canadian market. According to some estimates, parallel imports into the US market increased from 16,000 vehicles in 1996 to 200,000 in 2001 (Berman 2004).

The choice of the automobile manufacturers to apply lower prices in Canada than in the US market was essentially justified by the lower per-capita income and a higher tax rate in Canada. In particular, a Ford spokesman defended its lower prices in Canada, stating, "Pricing varies by regions and markets around the world based on different content, marketing strategies, and the competitive environment" (Berman 2004). In this case, "brokers approached Canadian auto dealers in Vancouver (one of the many gray market hotbeds) with briefcases full of cash, bought vehicles meant for the Canadian market by the dozen and shipped them to Seattle. They were able to undercut the price of legitimate U.S. dealers and still make a profit" (Antia et al., 2004).

1.4 Occurrence of imbalance between demand and supply of a product within a specific country market

The differences in the selling price in domestic markets for the same product may also be due to the inability of the supply to meet the quantity of product demanded by consumers.

This situation was, for example, observed in the case of Cabbage Patch Kids, in which the inability of authorized retailers to provide sufficient quantities of dolls to meet the demands in the American market resulted in a substantial increase in the average selling price of this product. This imbalance created an important opportunity for traders of parallel channels, which started to sell in the American market the same dolls purchased in other countries (Duhan e Sheffet, 1988).

1.5 Adoption of customer price discrimination

Unauthorised trade flows between different countries and within the same market can also occur when the manufacturer applies different prices to different customers. This kind of discrimination occurs mainly when the industrial firm applies substantial quantity discounts to its customers or when the price is negotiated individually with each customer (Cespedes et al., 1988). The second practice is particularly widespread in most industrial markets, where the price may even be proposed by one single customer.

In particular, when an industrial enterprise provides substantial quantity discounts to its customers, some authorized dealer may deem it convenient to order a quantity of product which is high enough to take advantage of quantity discounts with the aim to purchase the product at the lowest price. Then, as these authorized dealers made an oversupply of the product (compared to the demand expected for the item in the sales area of competence) they may decide to sell some units of the product to unauthorized distributors, which operate in other geographical areas. In this way, the authorized dealer can maintain the requirements to access quantity discounts (high volumes of product ordered) over time, thus lowering the costs of goods sold, but creating many problems for the manufacturer's authorized dealers which operate in other geographical areas. Therefore, parallel imports generate a competition between authorized dealers of the same brand operating in different territories.

1.6 Contract clauses that affect the ability of the dealer to adapt supply to demand

Gray markets can be stimulated by specific contractual terms laid down by the manufacturer, which can induce the buyer to issue excessive orders (of a certain item) compared to the quantities he really needs or expects to sell in his territorial area. In the disk drive computer industry of United States, for example, the definition of contractual terms, which fix excessive penalties for the cancellation of orders, has been considered an important factor, that facilitated the widespread of gray markets in that industry (Cespedes et al., 1988).

Another clause, that can facilitate the development of gray markets, is the *minimum order quantity*, which is frequently use by clothing manufacturing firms of well-known brands, when they sell new collections to their retailers. The possible implication of this kind of clause on the retailer's behavior is clear from the words of a representative of an Italian fashion retailers association: "Many industrial firms impose minimum order quantities on retailers, and, in some cases, force the retailer to buy their entire collection which the latter obviously does not manage to sell. The risk of overstock is not shared with retailers. I would not exclude, even though I condemn the phenomenon, that in some cases the gray market can be a way out of this difficult situation" (Il Sole 24 Ore, 05/10/2000).

The strong constraints imposed by the manufacturer on the quantity of goods the dealer can purchase, may in practice induce the retailer to get rid of the products in excess (with respect to the needs of its sales outlet(s)) in the gray market.

1.7 Significant differences in overheads and marketing costs between different types of distributors in a given country

The difference in the operating and marketing costs of authorized dealers (that keep an assortment of entire lines of products and offer a wide range of pre- and post-sales services) and discount retailers (which normally deal with a more limited assortment of products, offering only essential services to customers) is another important factor that can favour the development of gray markets.

While authorized dealers offer some services (such as marketing communication, in-store product demonstrations, etc.) to the consumer that are particularly important for the creation of the industrial firm product's market in their areas of competence, the parallel importer operates as a "*free rider*" because he takes advantage of the services offered to the final consumer by authorized distributors but does not participate in the costs required for their delivery (Bergen et al. 1998).

This developmental factor of unauthorized trade flows appears quite relevant in business practices: 70% of managers surveyed in a sample of 27 US exporting firms of several industrial sectors have recognized, for example, the differences in costs between different types of intermediaries as the main cause of gray markets, while only 22% of them considered exchange rate fluctuations to have a significant role (Micheal, 1998). This study also showed that the unauthorized distributor is generally smaller (compared to authorized one), supports lower overall costs and performs basic functions of marketing towards the buyer, while the authorized dealer is frequently involved in the implementation of significant promotional campaigns and advertising to stimulate sales, and these costs are reflected in the margin charged on the consumer selling prices of the products. The difference in costs between the two categories of intermediaries is able to explain those situations frequently encountered in the real world, in which the parallel importer continues to operate with good economic performance in a given domestic market, even when it buys the items sold at a price higher than that paid by the local dealer (Lim et al., 2001).

1.8 Product international life cycle

Firms operating in multiple geographical markets may decide to sell a product in a foreign market because it has reached the maturity stage of its life cycle in the country of origin and since the same product is still considered new by the buyers (Chang 1993). Frequently, for example, European industrial firms stock products considered obsolete, or at least no longer relevant for the European markets. As such, they export and resell them in non-EU countries where the demand for these items is still high. The lower level of competition in foreign countries may justify the choice of the firm to set a price higher than that applied in the domestic market thus creating conditions for the development of parallel exports to these countries. However, if the foreign markets do not

allow the implementation of a skimming price policy, but accept only lower prices, this situation creates the risk of re-importation of these items back into the markets of origin. This return of products out of fashion, or not technologically competitive that the firm had tried to drive away from the European markets can have significant negative effects on the prestige of the manufacturer in the European markets.

2. Impacts of parallel imports on the industrial firm economy

The identification of specific lines of action towards parallel imports requires a preliminary analysis and understanding of the negative implications and costs that they can have on the manufacturer's economy. In the academic literature, several possible adverse effects of parallel imports have been identified which are in fact all closely linked together. The main issues are related to the the following aspects.

1) Dilution of the level of exclusive distribution.

The most immediate effect of the formation of parallel channels is the dilution of the level of distributor's territorial exclusivity (Buchanan et al., 1999). "Instead of being the sole distributor of one of a select few establishments carrying a product, the authorized distributor becomes merely one of the many sources" (Antia et al., 2004) The increase in outlets competing with each other to offer the consumer the same items in a given area is likely to have negative effects on the authorized distributors' economy in terms of loss of sales and reduced profit margins (Cespedes et al., 1988). The discontent and complaints about this situation normally result in demands made by authorized distributors to the manufacturer to "do something about it" (Antia et al., 2004).

2) Deterioration in the relationship between the various members of the distribution network.

The biggest negative implication of parallel markets concerns the impact they have on the relationships and trust between the members of the distribution network often created by the manufacturer firm through large investments. An effective and efficient distribution network is in fact based on the development of relationships characterised by mutual trust between the managers of the manufacturer and those of the authorized dealers (Cavuşgil and Sikora, 1988). The reduction in the authorized distributor's profit margins, due to the development of parallel imports, triggers a situation of strong conflict between the manufacturer and the distributor (Valdani and Bertoli, 2006). In order to understand the reasons and problems at the root of this conflict, it would be useful to consider the case of an authorized distributor which has already invested a substantial amount of money to set up a new showroom and equip the sales outlet in order to fulfill the contractual obligations taken on with the manufacturing firm. This assures the dealer that the ownership of an exclusive territory will more than make up for its investments. However, when the dealer starts to appreciate the expected sales, he becomes aware that the items with higher profitability are available to the consumer at other stores more or less close to where it is situated at even 15-20% lower price than that recommended by the manufacturer (Antia et al., 2004).

The dealer will now have to deal with this alarming situation which has arisen. It is reasonable to assume at least three possible reactions that an authorised dealer might have : a) reduce selling prices in order to line them up with the prices of the parallel importer and do everything possible to reduce costs; b) express his disappointment to the manufacturer; c) take legal action against those who appear responsible for that distressing situation. In these situations, the manufacturer's lack of interest in the dealer's problems or the manufacturer's open tolerance of gray channels can lead to a conflict and seriously jeopardize the manufacturer's relationship with the distributor (Onkvisit and Shaw, 2004).

A further downside for the authorised dealer stems from the fact that the gradual spread of information on sales prices charged in parallel channels could lead the final customer to assume an attitude of skepticism and distrust towards the authorised dealers (Cavuşgil and Sikora, 1988).

3) Image deterioration and free riding processes

The deterioration of brand image as a result of gray channel development can result from various mechanisms. Consumers, who have supported high prices to have exclusive products, may be disappointed and

outraged when they discover that what they have bought is actually not as exclusive as they had originally thought (Antia et al., 2004). When these consumers realise that the same products sold in authorized stores can be purchased at lower prices at alternative channels, the manufacturing firm may suffer an erosion of the image of its brand (Mathur, 1995; Jen-Hung et al. 2008). However, the negative effects on brand image may also be due to the decrease of total marketing resources devoted to support the brand or to the increased difficulty of the manufacturer to effectively control the communication processes of the dealers. In fact, the complex process of brand image creation is not only influenced by the manufacturer's communication, but more often, a decisive role is played by retailers' activities which directly control the way the articles are presented to the final consumer. In this respect, the development of gray channels poses two main problems.

a) The decrease in sales in the authorised distribution channel leading to benefit the unauthorized one may result in *a long-term reduction of marketing resources that can be used by the manufacturer and by the authorised dealers to support the brand* (Eagle et al. 2003). The parallel importers are actually "*free riders*" benefiting from the brand and the market which have been created in a given area by authorised distributors through significant investment of resources in marketing and communications. In particular, faced with lower profit margins and disinterest or inaction of the manufacturer, the authorised dealer may decide to decrease the services normally provided to its customers (such as informing the buyer on the attributes of the product, training its sales personnel, etc.) in order to reduce operating costs and to adapt to the pricing policies of unauthorised dealers. This will certainly have a negative effect on the image of the product and on the demand for the brand as the service offered by the network of authorized sales often tends to be an important component of the differentiation strategy of the firm that owns the brand (Antia et al., 2004).

b) The marketing and communication activities of parallel distributors are outside the control of both the manufacturer and authorised distributors and *can project on the consumers an image which is inconsistent with the one planned by the manufacturer and its network of authorized distributors* (Eagle et al., 2003). The brand images and values contained in the messages transmitted by parallel importers and by authorized dealers may contain elements of conflict which can confuse the consumer and *produce negative effects on the image and on the prestige of the brand*. The differences in communication goals of the various members involved in the parallel channel should not be overlooked. The communication of parallel importer is not intended to develop a demand for a given industrial brand in a specific geographical area, but usually consists of promotional offers aimed at acquiring a share of the market created by the authorized distributor (Tan et al. 1997).

4) Legal liability and reputation of the manufacturing firm.

The expansion of international gray channels could reduce the manufacturer's control on the type of products sold in the market of each country, and this can lead to potential problems regarding the manufacturing firm's liability and/or reputation (Antia et al. 2004). The products intended for countries in the developing world, for example, could be devoid of safety devices which are instead required in European countries or in North American markets. In this case, any accidents caused by the use of products imported through parallel channels could lead to legal liability for the manufacturing firm and negative implications on its reputation (Cavusgil and Sikora, 1988).

5) Alteration of international marketing strategies.

The growth of parallel import flows can alter and make it harder to formulate effective international marketing strategies. As pointed out by Cavusgil and Sikora (1999) "forecasting accuracy, pricing strategies, merchandising plans, and other marketing efforts can be disrupted by an unexpected expansion of gray market imports". Moreover, the increase in sales in the markets in which the company applies lower prices (and which achieves lower contribution margins) and the decrease in those in which the product is sold at a higher price can obviously result in a significant drop in the company's overall profitability (Myers 1999). That is why the firm should anticipate the movement of the gray market while it is developing its marketing strategy.

3. Main opportunities created by the development of parallel imports

With regard to the desirability of parallel channels from the point of view of the manufacturer, various analyses (Assmus and Wiese, 1995; Antia et al., 2004) have emphasized that a certain level of unauthorized commercial flows may be beneficial to the manufacturer when they are able to increase the manufacturer's sales and profits without compromising either of the relationships it has established with its authorised distributors and the consumers' perception of the brand in the market segment in which the product is being sold at a high price. In effect, managers of manufacturing firms do not always perceive these flows as a threat or as a phenomenon that should be unconditionally counteracted (Iqbal and Feick 2002, 273;).

Some empirical studies have shown that in some cases they are considered as *a real tool to increase manufacturers' international sale and market shares in a foreign country*. This emerged, for example, in a sample of 27 US exporters of various industrial sectors, of which only 18% expressed the desire to combat unauthorized channel flow unconditionally (Micheal, 1998). The other firms' choice to not hamper the phenomenon or, in some cases, even to feed it, were justified by certain functions ascribed by managers to parallel channels in the firms' international expansion. These functions, identified by the managers of the research and of other studies are as follows:

a) *Comparison between the performance of alternative distributors*. If, for example, the firm's management has not yet reached a final decision over an exclusive distribution agreement in a given country, the use of a plurality of distribution channels can offer the exporting firm the opportunity to effectively compare the characteristics of alternative distributors operating in the same market.

b) *Compensation of some deficiencies in the authorized distributors' performance*. When the authorised dealers are not able to adequately serve the entire foreign market, the development of parallel trade flows may allow the exporter to achieve a broader and more complete geographical coverage of the foreign market. This situation is usually more common in developing countries in which the official distributors often have inadequate financial and marketing resources and capabilities to effectively push or pull the product into and out of the distribution channel.

c) *The overcoming of restrictions on the commercialisation of a firm's products in the foreign market*. If certain products have difficulty in accessing a foreign market due to the presence of non-tariff barriers (such as import quotas or licenses), the authorized importer has little ability to increase sales of products beyond a certain limit. As in parallel distribution channel, the item is sold to another importer who is the holder of an import quota or license that are different from those of the authorized importer, trade flows triggered by unauthorized intermediaries in practice allow the exporter to increase the number of retail outlets selling its products, thus increasing the total turnover realized in the foreign market.

d) *Bypassing restrictions that impede foreign firms to conduct business inside a foreign country*. In order to circumvent the regulations of the Chinese government, which require the participation of local businesses in the activities of foreign investors, IBM has decided, for example, to supply the Chinese market through an unauthorised distribution channel. Instead of supporting substantial investments to establish partnerships with local distributors, the PC maker has considered more convenient to turn a blind eye on unauthorized imports from Hong Kong (Antia et al, 2004).

e) *Entry into new markets*. The discovery of unauthorized flows can indicate to the firm managers that there are new markets for the firm's products or shortage of quantities in a specific segment, which are particularly interested in a company's product (Antia et al, 2004). Many well-known brands were bought for the first time by Taiwan consumers from unauthorized dealers and only subsequently did manufacturers decide to set up a network of authorized distributors. Before the seventies, this market had been neglected by firms with international brand because it was considered small in size and composed of low income consumers (Chang, 1993).

f) *The adaptation of the firm's marketing strategy to the specific competitive dynamics that characterize a given industrial sector in the foreign country*. In a given industry, several competing firms may use parallel

channels to sell their products (if convenient), and those firms that do not conform to this strategy are likely to lose significant market share and competitive position. In the Indian market for personal computers, for example, while “visible” competition and sales were developed at the level of authorized distributors, with high levels of service and image, the “real” sales volume, which allows firms to achieve significant economies of scale and market penetration, actually develops in the unauthorized distribution channel. This channel affects nearly 60% of the market. Many manufacturers of well-known PC brands ignore this market, giving up a large segment of consumers whose needs are not met by authorized channels. The companies who have decided to serve this segment are in practice have become the main players in the market (Antia et al., 2004).

g) *The penetration of a specific segment of the foreign market which is not adequately served by the authorised distribution network.* Parallel markets may have a positive effect on the economic performance of the manufacturer when they are able to serve a specific segment of the foreign market that is not adequately achieved by the network of authorized dealers (Myers, 1999: 106). As argued by Assmus and Wiese (2005), “if the gray goods serve an additional market segment that would not buy the product at a higher price, gray markets can result in higher profit for the company even if the supply of gray goods cannibalizes some demand in high-priced countries”. Some aspects on this topic are presented in Table n. 3.

4. Managing distribution channels that aim at preventing the formation of parallel imports

The solution to the problem of parallel markets *lies largely in the way the manufacturing firm manages its relationship with its authorized distributors.* Gray trade flows are almost always the result of *the authorised distributor’s failure to strictly observe the exclusivity agreements with the manufacturer* (Czinkota and Ronkainen, 1995). In this regard, it has been emphasized that when the manufacturing company exerts a tighter control on the activities of its authorized dealers or pursues a strategy of vertical integration in retailing, the impact of unauthorized trade flows tends to decrease (Myers 1999, 117).

One approach proposed by scholars to mitigate the development of parallel imports is the manufacturing firm’s adoption of punitive measures towards the members of the authorized channel which violate the restrictions on the resale of the products established by contract or by implicit agreements with the manufacturer (Antia et al., 2006).

In particular, Antia et al. (2006) applied the principles of the “*doctrine of deterrence*” to the management of relationships with authorized distributors and pointed out that *the severity of the punishment, by itself, may not be sufficient to reduce the incidence of violations. The most effective approach should include (in addition to the severity) the certainty and speed of response to the violation.*

The application of the principles of deterrence to the issue of parallel channels has allowed the scholars mentioned above to verify that the ability of the measures used by the manufacturer against the distributors who violated the exclusive agreements to produce a deterrent effect against all authorized dealers (and therefore reduce the overall size of the unauthorized flows) depends on three main elements (Antia et al., 2006).

a) *The severity of the manufacturer’s corrective actions when the authorised distributor fails to comply with exclusive or selective distributive agreements.*

In the context of parallel channels, the manufacturer may use various tools to push the distributor to operate in accordance with the agreements. It can, for example, provide for fines, sue the dealer, resort to forms of social ostracism or decide to terminate the business relationship with the distributor. The manufacturer may require the distributor to comply with the selling restrictions by virtue of legitimate authority, which is given by the implicit or explicit agreements entered into with the dealer. However, this authority is not the only tool available to the manufacturer to influence the retailer’s behavior. In addition, it may suspend the granting of certain benefits normally granted to all members of the distribution network (such as premiums on sales, quantity discounts, contributions to advertising activities, initiatives for staff training, etc.) to dealers who violate the agreement (Antia et al., 2006).

The costs imposed on the party who has violated the agreement are a direct function of the *severity of the punishment*, that is, the *intensity or strength of the corrective actions taken by the manufacturer on the retailer in response to the violations found*. The amount of the fine imposed on the offending distributor exercises, for instance, a direct influence on the *net payoff it achieves from the gray market* (in this case, subtracting the fine from the profit accrued from the violation). The relevant costs can also be of *non-financial nature*. In the event of recourse to legal action or termination of the contract, costs would also include the time taken in legal consultations and in looking for alternative sources of supply. The potential gains, achieved by the retailer through the agreement violation are therefore neutralized by non-trivial costs which reduce the incentive to commit the offense.

TABLE 3: PARALLEL IMPORTS AS A TOOL FOR FOREIGN MARKET SEGMENTATION

The parallel channels can be a very beneficial approach for customer segmentation in foreign markets compared with other methods based on the use of use of a narrow base of authorized dealers or creating a multi-channel network of authorized distributors with the related problems of conflicts between channels, consumer confusion and brand dilution (Anita et al., 2004).

Parallel imports are thus becoming a tool for customer segmentation, which has developed into a “*new version*” of the product manufactured by the company (Ahmadi and Yang 2000). This is because in the parallel channel products are often sold in discount stores, have labels in foreign languages, are often devoid of the manufacturer’s guarantees and after-sales services and in some cases could be subject to change in order to conform to the standards of the target market (Yang et al., 1998).

Parallel imports allow the firm to segment the foreign market on the basis of two main parameters that characterize overseas consumers.

A) *The different levels of consumers’ “risk aversion”*

When a consumer makes a purchase, they normally perceive a certain level of risk due to the uncertainty of the product’s quality that they actively attempt to reduce. The more the consumer is risk averse, the more they will be willing to pay a high price just to get some form of reassurance on the quality of the product or service they want to purchase.

In a specific foreign country, products at low prices sold by parallel importers generally do not offer the same guarantees as those (with higher prices) available in the authorised distribution channel. Therefore, risk-averse consumers will be willing to pay a higher price to get a higher level of security thanks to the guarantees and pre-and post-sales support offered by the manufacturer and its network of authorized dealers to the consumers. Instead, the less risk-averse consumers will be more likely to buy products marketed in the parallel channel.

In the consumers’ product purchasing process, the perceived risk has a *multidimensional nature* (since it involves *financial, social and psychological* aspects) and manifests its effects on *all the stages of the process* (Havlena and De Sarbo, 1991; Mitchell, 1992). In the shopping process of products sold in the parallel distribution channels, two components of perceived risk dominate among others (Huang et al., 2004).

The first one occurs in the *early stages* of the buying process and relates to the *consumer’s feeling of a higher likelihood that they might be buying a counterfeit product*. In fact, in some cases, it has been found that parallel importers, along with authentic products, also sell counterfeit products.

The second one is *after* the purchase and refers to the *consumer’s loss of guarantees and services normally offered to its customers by authorized dealers*. The risk in this case arises from the fact that some brand managers of manufacturing firms instruct their authorized dealers to not provide any service to those consumers who have purchased the products in the parallel channel.

B) *Different levels of consumer’s sensitivity to price and to the level of service offered by retailers.*

Using a model based on the game theory, Coughlan and Soberman demonstrate that parallel channels of distribution may be beneficial to both producers and authorised distributors when, in the foreign country, there are great differences in consumers’ price sensitivity and a large number of them are essentially “price insensitive” (Champion, 1998).

In this situation, the products sold at low prices in the parallel channels will be designed to meet the needs of customers that are more price sensitive, while the authorized dealers will address only the second category of consumers, that is those who are not very price sensitive and are instead highly sensitive to the level of service provided by the retailer.

The same authors argue that this second segment is expected to grow in many countries parallelly to the progressive aging of the population. In fact, with age people may be less price sensitive and more attentive to the services offered by the authorised retailers.

b) *Efficiency and effectiveness of the mechanisms introduced by the manufacturer to detect the violation of agreements.*

When perpetrators decide whether to engage in gray market activities or not, they consider not only the costs entailed by *severe enforcement* but also the *likelihood of severe enforcement*. “If the detection ability and, consequently, the certainty of an enforcement response are low, potential miscreants are likely to discount the costs imposed by severe enforcement. *Severity poses no threat to the offender if the offence remains undetected by the manufacturer*” (Antia et al, 2006). Therefore, an authorized distributor operating in the gray market will not be deterred by threats of punishment if they know that the manufacturer’s ability to uncover their actions is underdeveloped.

Although firms are hesitant to publicly divulge information on the techniques used to detect parallel imports of their product, some studies have shown that firms may use a remarkable range of approaches (Antia, 2004). Some firms carry out periodic unannounced audits of their distributors’ sales records. The systematic monitoring of the amounts of goods purchased by retailers is in fact very useful to detect authorized intermediaries that supply parallel markets: “unexpected spikes in the quantities ordered may in fact bring the retailer’s abuses to light” (Il Sole 24 Ore, 03/10/2000).

Other firms establish toll-free telephone numbers that authorised distributors can use to report on gray market cases in their territories. In the same situations, companies use marketing research firms to obtain estimates of the extent of gray marketing of their products. Moreover in several industrial sectors, such as the automotive, consumer electronics and personal computers sectors, manufacturers can use serial numbers on product and warranty cards to track the trail of gray market and identify those dealers who are involved in unauthorized distribution (Onkvisit and Shaw 2004). It should be noted that companies are increasingly using sophisticated high-tech solutions, such as tracking software that flags sudden spikes due to orders placed by distributors, web solutions which sift through the Internet’s billions of pages to identify potential cases of unauthorized sales, and RFID or other type of technology that allow the company to track the trail of products throughout the distribution channel.

c) *Speed of manufacturer’s implementation of corrective measures.*

The deterrent effect of sanctions imposed by the manufacturer to violating distributors depends not only on the severity of the corrective actions and on the manufacturer's ability to detect the violations, but also on the “*speed of enforcement*”, that is the time that elapses between the detection of violations and the corrective actions taken in response. The speed of enforcement tends to have a positive impact on the deterrent effect for the following main reasons (Antia, 2006, 94): 1) the rapid corrective action reduces the length of time over which the party committing the violation may enjoy its payoff; 2) delay in applying sanctions allows the violating party to undertake actions to avoid (or at least minimize) bearing the brunt of the costs imposed by corrective action; 3) temporal proximity of the violation and the consequent corrective enforcement action reinforce the punitive consequences to the perpetrator, as well as the group at large. To respond quickly to parallel imports, firms should assign to specific managers the responsibility to formulate and implement rapid action (as soon as they detect the existence of unauthorized flows) and develop internal processes to cope with this phenomenon. The approach used by firms to tackle gray markets is rather heterogeneous. “Companies often do not have a clear chain of command for responding to gray market; managers are forced to deal with problems in their markets on their own” (Antia et al., 2004). However, some *companies have created managerial positions, a task force and working groups and training programs to assess the problem of gray markets and formulate possible lines of action.*

The company’s choice to develop a system to ensure compliance with the agreements established with the distributor has the important advantage of sending strong signals of the firm’s commitment towards those distributors, which (in contrast to previous ones) comply with the exclusivity conditions and are subject to the adverse effects of unauthorized sales (Onkvisit and Shaw 2004, 375). However, this decision comes into conflict with two problems of the practical application of this management choice.

a) *The design and implementation of the various techniques to detect the violation of agreements as well as the identification of authorised distributors (that serve the parallel markets) are often quite expensive and time-consuming* (Czinkota and Ronkainen, 1995). These techniques could have significant implications on the firm's production and logistics activities and costs: for example, the use of serial numbers to distinguish the products intended for a country from those intended for other countries "increases inventory costs and affects the manufacturer's flexibility in rerouting products quickly and cheaply to markets with a sudden in surge in demand" (Onkvisit and Shaw 2004, 378). Therefore, managers should carefully compare the additional costs with the benefits of the decision to increase the firm's capacity to detect violations of the exclusivity or selective sales agreements signed with its distributors.

b) *Even when the company is able to accurately identify the authorised distributors which have contributed to parallel market development, in reality it does not always have the necessary tools to adequately solve the problem.* The initiatives undertaken by the manufacturer to combat parallel channel activities are not always considered legal. In effect, "Any overt and concerted action against gray market dealers may be construed as an illegal restraint of domestic and international commerce" (Onkvisit and Shaw, 2004). This is, for example, the case of the automotive industry in the European market which can be seen in Table n. 4.

TABLE 4: EUROPEAN COMMISSION'S INTERVENTIONS AGAINST VOLKSWAGEN-AUDI'S AND OPEL'S ACTIONS TO PREVENT AUTHORIZED DEALERS TO SELL CARS TO GRAY MARKETERS

The European Commission intervenes when the car manufacturers are trying to force their exclusive local distributors to refuse sales to customers in other Member States of the European Community. The objective of these measures is to *prevent the development of "artificial partitioning of the market"*. As argued by the European Commissioner for Competition, one of the major advantages of the single European market should be the right of every citizen to buy cheaper products in other European countries (Il Sole 24 Ore, 21/09/2000).

This orientation is clear in two important decisions taken by the European Commission in the automotive industry in the nineties.

a) *The case of Volkswagen-Audi.* The object of the decision 98/273/EC (published in the European Communities' Official Journal of 25th April 1998) was parallel imports into German and Austrian market of Audi and Volkswagen cars from the Italian market starting in September 1992, when the severe depreciation of lira against the German mark and the Austrian schilling was not accompanied by a timely revision of the manufacturers' price lists.

This depreciation made the price differential of cars between Italy on the one hand and Germany and Austria on the other particularly interesting.

According to the European Commission, the German manufacturer and the exclusive distributor for Italy (Autogerma SpA) assumed an ambiguous attitude towards the distribution network, with the aim *to prevent the Germans and the Austrians from buying Volkswagen and Audi cars in Italy* where the prices were lower than in other European countries. Considering both Volkswagen's high share of the European car market and the persistence of this conduct for more than ten years, the European Commission fined the manufacturer a massive amount of 102 million of euro. The amount was later reduced to 90 million of Euro because the EU Court of First Instance ruled that the European Commission did not prove that Volkswagen cancelled some dealer franchises so as to punish them from facilitating cross-border sales (Onkvisit and Shaw, 2004).

b) *The case of Opel Nederland.* On the basis of its decision 2001/146/ EC (published in the European Communities Official Journal of 28th February 2001), the European Commission fined Opel Nederland (a subsidiary of General Motors) an amount of 43 million Euro because this exclusive distributor prevented its Dutch dealers to sell cars to retailers and consumers of other European Community countries between 1996 and 1998. According to the European Commission, these limitations have taken various forms, such as, restrictions on supplies, export bans, systematic refusal to pay bonuses on sales to customers of other Member States (Diritto & Pratica della Distribuzione, n. 1, 2001).

5. Lines of action to reduce the incidence of parallel imports: uniform price policy and friction strategy

According to microeconomic theory, an international price policy that maximizes the firm's total profits should set different prices in each geographical market on the basis of the specific values assumed by demand price elasticity and by the product's marginal production and sales cost in every country (Diller and Bukhari, 1994: 164).

When there are significant differences in the characteristics of the markets served (in terms of, for example, per capita income, consumer spending, logistics costs, level of taxation), that pricing policy appears the most appropriate. In this way, in fact, the company is able to capture the higher share of consumer surplus and maximize overall profits in different markets (Yang et al., 1998). This hypothesis is largely confirmed by empirical studies which show that the price actually represents the less standardized variable of the firm's international marketing mix (Diller and Bukhari, 1994: 164; Luceri 1999, 57, Yang et al., 1998, 435).

Nevertheless, the practice of differentiating the price of the same product across markets has great application limits: in effect, this practice could be effective only when the countries are sufficiently "*separated*", in such a way as to exclude the possibility of developing arbitrage transactions between them (Diller and Bukhari, 1994).

These transactions not only damage the economic performance of authorised distributors but also neutralize the geographical price differentiation policy because they will eliminate the higher price level the firm wanted to maintain in a given country (Simon and Kucher 1992). Moreover, the gradual fall of trade barriers between countries, the reduction of transport costs and the increasing internationalization of retailer firms are the main factors that make it increasingly difficult to implement a geographical price differentiation by industrial firms. Nevertheless, this policy is still particularly widespread in the practices of industrial firms (Gil-Pareja et al, 2008; Fischer, 2012). The marketing literature suggests two pricing policies appropriate for achieving the goal of eliminating parallel imports.

a) Uniform price policy.

This approach consists in applying a uniform price in different countries in order to completely eliminate the differences in the prices of the products being sold thereby eliminating the convenience of the unauthorized distributor to implement arbitrage transactions. The levelling of prices, on the one hand, can put out of business the unauthorised reseller, on the other hand, *it may entail the need to reduce the prices charged in the more lucrative markets*. In particular, this policy does not allow the firm to take advantage of the differences in the demand for price elasticity between the various foreign markets and *can therefore produce significant adverse effects on the overall company's profitability* (Simon Kucher and 1992).

Price reduction may also *impact negatively on the image, prestige and the value of the product's brand* (Onkvisit and Shaw 2003, 378). In the European context, one of the factors that has mainly contributed to significantly increase the level of industrial firms' price standardization (especially in the field of fast moving consumer goods) has been the growing level of *retail internationalization* (Simon and Kucher, 1992; Diller and Bukhari, 1994). The development of these retailing firms in foreign markets gives them the opportunity to internationalize their purchasing function through the creation of integrated international buying office.

Retailers with large international presence can not only internally compare the different selling terms offered by the same manufacturer in different countries for the same product, but they can also ask for an explanation for any differences and negotiate the level of prices effectively in order to obtain a homogenization towards the lowest price levels (Lugli, 1997; Luceri 1999).

b) The strategy of determining the price within a given band of variation

The strategy of defining the price within a given "*band of variation*" (also called "*friction strategy*") is based on the assumption that the policy of uniform pricing is not the only way to prevent the development of parallel imports. In fact, the same goal can be achieved without completely eliminating the differences in prices between countries, but reducing its level to such an extent so as to neutralize the convenience of traders to implement arbitrage transactions.

It has been observed that for the purpose of improving the company's profitability, it is "*much better to keep certain price differences than to practice the same price everywhere*" (Simon and Kucher, 1992).

The firm may set prices in each country within a specific “fluctuation band” whose identification requires the determination of the price differentials above which parallel imports start to emerge. In particular, it is reasonable to set the “price difference” between two geographical markets at a level just a little lower than the incidence of the arbitrage costs. If it is assumed, for example, that the arbitrage costs are 15% of the product’s sale price, the difference should be equal to 14% or 13% (Simon and Kucher, 1992).

This approach provides a good compromise between a uniform policy of price, slightly profitable for the company, and a geographical differentiation pricing policy which is difficult to sustain in the presence of increasing “permeability” between countries. However, prior to defining the selling prices of the products in different countries, it is important to estimate the “*market potential*” in each foreign country. Actually, the negative effects on the industrial firm’s economy may in fact be quite limited when in a small country such as Portugal, the high price levels are threatened by parallel imports from larger markets (such as Spain).

A particularly bad situation (for the manufacturer) arises when the highly profitable prices of a large country are damaged by the low price levels prevailing in a nearby small-sized market. Consider, for example, the case of parallel imports that reach the German market from Belgium, jeopardizing the highest levels of price in the first market. In this case, the best option for the company could be to not serve small-sized markets at all. In fact, it can be more profitable for the company to completely abstain from entering small markets characterized by low prices that risk to reduce a high price in a large-sized market.

6. Defining prices according to the firm’s global interests

The two above-mentioned pricing approaches to cope with parallel imports are based on the assumption that unauthorized channels cause an adverse effect on the manufacturer’s economic results, a phenomenon that must be counteracted.

In fact, these methods involve a reaction which is often excessive in relation to the size of the problem of parallel imports and which tends to overlook both the effects unauthorised distribution channels have on the firm’s total sales and profits and the redistribution of sales and profits between the distribution channels of different countries.

In order to formulate appropriate strategies towards parallel imports, which take into account the firm’s global interests, some scholars (Yang et al., 1998) pointed out that it is crucial *to understand in detail the interactions between authorised and unauthorised channels of distribution*. It should be noted that *when firms set prices in different countries, “they are effectively preventing or creating alternative channels of unauthorized flows and setting prices for these separable channels”*. A global strategy should realize this link and align such pricing decisions with a global corporate strategy to guide the firm to *simultaneously manage its channels in different regions and alternative channels in one region*. The analysis of the interdependencies between distribution channels can be achieved through an appropriate segmentation of the geographical market in which the company sells the product at a higher price (country B in Fig. 1).

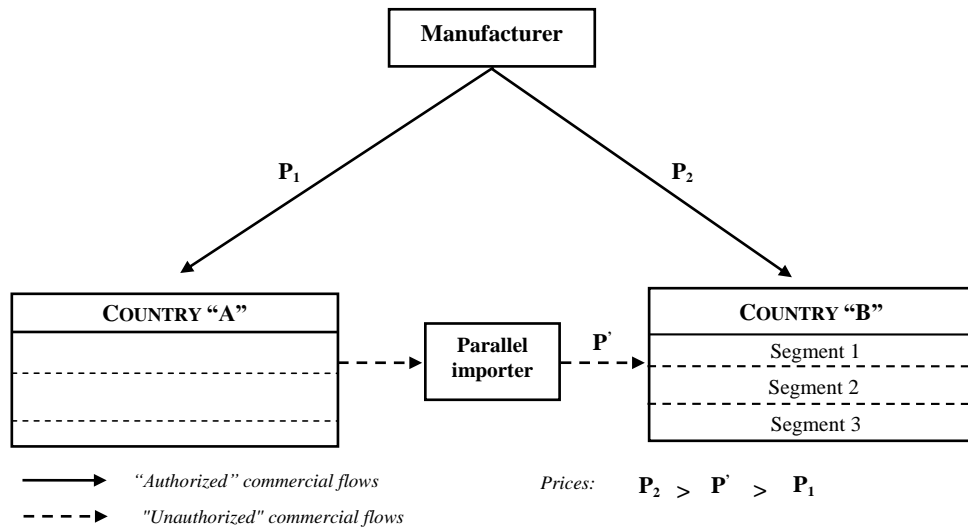


FIG. 1: SCHEME OF PARALLEL IMPORT TRADE FLOWS AND SEGMENTS OF CONSUMERS IN THE HIGH-PRICED MARKET

(Source: our elaboration on the basis of the study by Yang et al., 1998)

Usually, consumers consider parallel import products different from authorized products as the former are sold at discount outlets, bearing labels in foreign languages, and are not covered by the manufacturer's warranty and after-sales service. Therefore, *they are valued less by consumers and are sold at a lower price than the authorized products*. Consumers in country B are making *conscious choices* between the higher-priced but warranty-backed authorized products and the lower-priced parallel imports.

Depending on which product can give the customer of country B a higher value-in-use, defined as the difference between the consumer's evaluation and the price paid, three segments of consumers can be identified:

- *Buyers of segment 1* consist of those consumers that have the ability to purchase either the higher-priced authorized products or the lower-priced parallel imports. However, they value authorized products more and will purchase them.

- *Buyers of segment 2* are more price-sensitive, compared to consumers of the previous segment. Although they have the economic capacity to purchase either product, they will buy the parallel import product.

- *Buyers of segment 3* have the economic capacity to purchase only the parallel imported product.

The scheme proposed in Fig. 1 shows how the development of parallel imports entails:

- a decrease in the manufacturer's turnover from country B because of the sales loss from consumers of segment 2

- an increase in sales from country A for an amount equal to the total purchases made by consumers of segment 2 and 3 of country B.

The sales increase in market A obviously derives from the fact that, unlike the counterfeiting (which consists in the counterfeiter's production of a product, which is an imitation of the original one), the unauthorized parallel importer does not produce the product sold but buys it in the country where it is sold by the manufacturer at a lower price. Therefore, parallel channel development results in a net increase in the total quantity of the product sold, which is equal to the quantities requested by the consumer of segment 3 in country B.

More uncertain is the assessment of the effects of parallel imports on the firm's overall profitability.

On the one hand, there is in fact a decrease in profits, since, in the absence of parallel imports, segment 2 of country B would have purchased the product by the authorized channel at a price higher than that paid by the parallel importer which has, in turn, purchased the product in the market A.

On the other hand, an increase in profits derived from an increase in net sales in country B, where the unauthorized distributor starts to serve a “new” consumer segment (segment 3), which, in the absence of parallel imports (and the related lower sales prices) would have never purchased the product. According to experts Ahmadi and Yang (2000), who proposed this model, the analysis of the parallel imports making an impact on the firm’s overall profitability should be based on a careful assessment that takes into account a decrease in profits resulting from the loss in segment 2 in country B and the forces that could entail an increase in profits due to the birth of a new consumer segment (segment 3 in country B).

This approach to define the prices of products in foreign markets requires a *preliminary analysis in order to verify whether it is really convenient for the company to hinder parallel imports*. “If it is in the firm’s best interest to inhibit parallel imports, the price difference should be set at the threshold where profitability to the parallel importers just vanishes. Instead, if it is in the firm’s best interest to use parallel imports to boost global sales or even profit, the company should allow parallel imports by setting prices in different countries such that the resulting parallel import flows will contribute to the firm’s goal in an optimal way” (Yang *et al*, 1998, 437).

7. Differentiation of product/service depending on the foreign country and the role of marketing communications

In the marketing literature, it is well established that the degree of product standardization or adaptation to the specificities of foreign markets significantly influences the decision whether a particular product is subject to parallel distribution channels or not (Cavusgil and Sikora, 1988; Myers, 1999).

The product policy usually suggested in the literature to combat parallel imports are based on the *intuitive assumption that the more the product sold in different markets is standardized, the higher is its aptitude to be transferred between different countries*. In this case, any differences in prices or in the availability of the product may induce traders to give rise to unauthorized trade flows.

Widespread is the idea that to prevent the development of these flows the company should modify the product in order to offer different versions of the same article in different foreign markets in order to force the intermediary to support high costs of conversion and to make it more difficult or even prevent the substitution of the imported product with that sold by the authorised distributor (Czinkota and Ronkainen, 1995). The modifications of offers can be of different entities and may relate to changes in the characteristics of the product (for example, in the sugar content of a drink), in the standard (for example, in the voltage of an electrical device), in packaging, in the services offered and in the brand used.

However, *the real effectiveness of this policy in order to reduce parallel imports presupposes two main fundamental economic evaluations*.

a) *First and foremost, not only the benefits of such a policy but also its costs should be considered*. In fact, if on the one hand, the choice to make adjustments to the product/service, or to use different brands, can enable the enterprise to counteract the development of parallel imports, on the other hand, it causes inevitable repercussions both on the opportunities for economies of scale and on production, inventory and marketing costs, which must be carefully analyzed.

b) *Secondly, the company must check if the differentiation of the product/service is actually able to reduce the size of parallel imports*. An interesting study, based on the perceptions expressed by one of the export managers of a sample of American firms producing industrial goods found a lower prevalence of parallel imports when the products were standardized (Myers, 1999). Various explanations have been proposed for the that result.

– When the company decides to sell a basic or simplified version of the product in a market and a better or modified version of it in another country, it is reasonable to expect (given the inevitable differences in design

and manufacturing costs) that the two versions of the product are sold at different prices. These price differences can be profitable for parallel importers, as in the first market some consumers may be willing to pay more for a different or improved model of the product (compared to that available from the authorised retailers), while in the other country, some consumers may not be willing to pay a high price for a product they consider “too sophisticated” and therefore prefer to buy the cheapest imported product version (Myers, 1999).

– Another reason relates to the correspondence between the features of the product offered by the company in a country and those demanded by consumers. In several foreign countries, often some customers prefer modified or differentiated versions of the product (compared to those sold by the manufacturer through the authorised distribution network) and are also willing to overlook the magnitude of the price in order to obtain a specific version of the product. If the company does not offer to this group of buyers exactly what they want, and the right product of the same company is available in another country, this is a valid reason that could lead to parallel channel development (Myers, 1999). In other words, a wide variety of the same type product in different markets often pushes buyers to seek intermediaries that are able to provide them with the desired version of the product (Myers and Griffith, 1999).

– It has also been noted that parallel imports often develop when local regulations, relating to specific industry sectors (such as chemicals or emission control systems) impede or prohibit in some countries certain types of changes or improvements in the product (Myers and Griffith, 1999). Parallel importers can take advantage of these discrepancies by selling products bought in foreign markets with less restrictive regulations. An interesting example of how regulations can contribute to the development of parallel imports is that of yogurt. This kind of food can be produced in France with milk powder and whey which is forbidden in Italy. The higher prices charged in Italy are thus the result of a different intrinsic quality which however is not easily perceptible by the consumer.

Finally, another policy to cope with the development of parallel imports consists in the implementation of *communication programs to educate consumers about the benefits of buying the product from authorised retailers*, giving particular attention to after-sales services and guarantees (Eagle et al., 2003; Onkvisit and Shaw 2004). Minolta, for example, ran advertisements to inform consumers that gray market cameras have an inferior warranty. This strategy has, however, two main limitations. The first relates to the risk that the message might induce consumers to think that something is wrong with the product sold by the manufacturer, questioning its quality (Onkvisit and Shaw 2003). The second is tied to the fact that *such a line of action can only be effective when the parallel importers are not able to provide adequate after-sales services*. In the New Zealand market, for example, it was found that the main parallel importers of consumer goods are in a position to offer its customers not only after-sales service but also forms of reimbursement which substitute the manufacturer’s warranty (Eagle et al., 2003).

8. Conclusion

Several factors, such as lifting of many trade barriers, improved logistical infrastructures, reductions in transport costs, development of the Internet and new information technology lead us to reasonably believe that parallel imports are destined to develop further in terms of the industrial sectors and geographical areas affected by this phenomenon. To respond effectively to these changes, manufacturers should develop adequate management skills to adequately address the various problems associated with the development of these unauthorised trade flows.

Studies conducted on this topic from a managerial perspective clearly show *the complexity of this phenomenon and the difficulty in identifying a management approach valid in every situation*. The marketing literature has often emphasized the negative impact of parallel imports on the economy and the marketing policies of the manufacturing firm. Scholars have also identified various policies to counteract the development of parallel imports, which are based on the international marketing mix elements whose effective application

requires the understanding of the specific drivers which are at the origin the company's unauthorised trade flows.

However, empirical studies have shown that these trade flows are not always perceived by management as a negative phenomenon for the manufacturer's economic results. In some cases, they may in fact have a positive effect on the firm's performance as they can serve specific customers thereby helping the firm to segment the foreign market and to overcome specific entry barriers. In simplified terms, strict economic implications of parallel imports can be summarized in the following processes:

- a shift in sales from the country in which the product is sold at a higher price to the market in which the sale price is lower;
- creation of a new market segment at the lower end in the higher-priced country constituted by of those consumers who are able to buy only the "economic" version of the product;
- increase in the firm's total sales volume in foreign markets;
- increase or decrease in the overall profitability of the company depending on the size of the segments involved in the unauthorized flow in the higher-priced country.

Therefore, it appears that the implementation of policies to prevent parallel imports is not always the most convenient decision for the manufacturer. This choice is actually quite complex and is subject to the consideration of:

- the benefits that may result from the increased sales in the segments in which the product is sold at a lower price with possible losses due to the effects of sales cannibalization in the segments in which the product is sold at a higher price;
- the possible reactions of authorised dealers to any sales reductions. If the economy of these channel members has adverse effects, the relationship with the manufacturer will become more difficult;
- the impact the spread of parallel flows will have on the manufacturer's brand and product image in the higher-priced country.

It is therefore apparent that there is a need for the firm to adopt a "*holistic approach*" in dealing with the issue of parallel imports, which takes into account not only the negative implications but also the possible positive effects the imports could have.

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New Media in Marketing Communications of Automotive Dealers on Polish Market

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Abstract

New media are being recognized as a possibility to develop bonds with customers by increasing number of businesses. That fact also applies to automotive business. With impressive intensity on American market as an example, Europe is following the trend. With all technical possibilities to offer, new media rise also the number of questions regarding its efficiency – the real influence on buying behavior of customers and consistency with overall brand communications. This paper aims at describing the state of current new media usage in marketing communications strategies of automotive dealers on Polish market. Authors gathered information from secondary sources, analyzed activities and tools used to develop online presence. On the basis of such analysis they will try to answer the question, whether new media have their own, thoroughly planned place in marketing communication strategy, supported by precise observation of expected results or they are just being used intuitively.

Key words: new media, social media, integrated marketing communication, automotive market in Poland

Polish automotive market undergoes stagnation, just like other national markets in Europe. Its size is estimated at 25 million, with more than 19 million passenger cars (CEPiK, 2014). It is also estimated that approximately 24% of this number is inactive – abandoned, scrapped for parts or reexported to another countries. Especially this last possibility presents an important issue – although the number of car registrations in 2013 increased by more than 6% reaching 290 thousand new passenger cars, experts say that almost 38 thousand cars were re-exported but that is official data, the number of cars re-exported unofficially is difficult to estimate (CEPiK, 2014). Polish market of automotive dealers is one of the most concentrated in Europe. 50 top companies that constitute 6% of all dealers sell more than 40% of cars. The biggest players continue to acquire smaller competitors or develop joint-ventures, expanding their geographical reach and number of showrooms. Individual expansion strategies are further supported by changes in official regulations that allow importers to limit possibilities of multibrand dealerships. Still, leading dealerships on Polish market come from the group selling more than one brand, and their increase in sales exceeded 50% in 2013 (Lista największych polskich dealerów TOP50 2013). Similar tendency can be observed for example in German automotive market. Shrinking number of dealerships reached 7,8 thousand in 2013 from as much as 18 thousand in 2003. PwC estimates that in 2020 number of dealerships can decrease to 4,5 thousand. Also the profit seems far from satisfactory – only 1,4% in 2012. Research conducted by PwC shows, that this can be the result of producers' policy towards dealerships as well as financing policy of banks, decreasing demand for new cars, changing mobility trends and Internet (Stachowski, 1/2013). Observing such changes dealers and producers are seeking new ways to sell – producers are trying to bypass dealers using online channels to reach customers (eq. you can reserve a new BMW i3 via website: www.bmw.com) and offer car sharing programs (eq. Deimler's car2go program: www.car2go.com). Dealers on the other hand must find new business formula and develop online presence in oncoming years in order to maintain competitiveness on the market.

Dealers are confronted with the choice to develop own brand using own website or using the one of importers'. Although importer offers powerful marketing support with less cost, such promotion will not be focused on a single dealership. A dealership itself can present its offer on its own website and social media or through intermediaries, e. q. independent, online marketplaces, such as www.otomoto.pl, www.autoscout24.de or www.auto-m.it. On some markets, e. q. German, it is quite common that importer cooperates with the dealerships. It helps to position dealership's website for search engines, finance banner campaigns, provides IT solutions to manage and offer cars from stock through intermediaries. The problem that German dealerships are facing is also true for Poland – how to effectively use online-generated leads (Stachowski, 2/2013, p. 46-48).

Change of buying behavior on automotive market started years ago. Instead of visiting real life marketplaces, customers review marketpace online. According to Capgemini Cars Online report, 94% of consumers initiate car purchase online and treat Internet sources as a primary source of information. What could

be surprising, is that family and friends are less credible than social media. Overall purchase process takes less time and customers are better informed than before. (My Car, My Way. Cars Online 12/13, Capgemini, 2013). The chart below illustrates the most important website elements expected by customers.

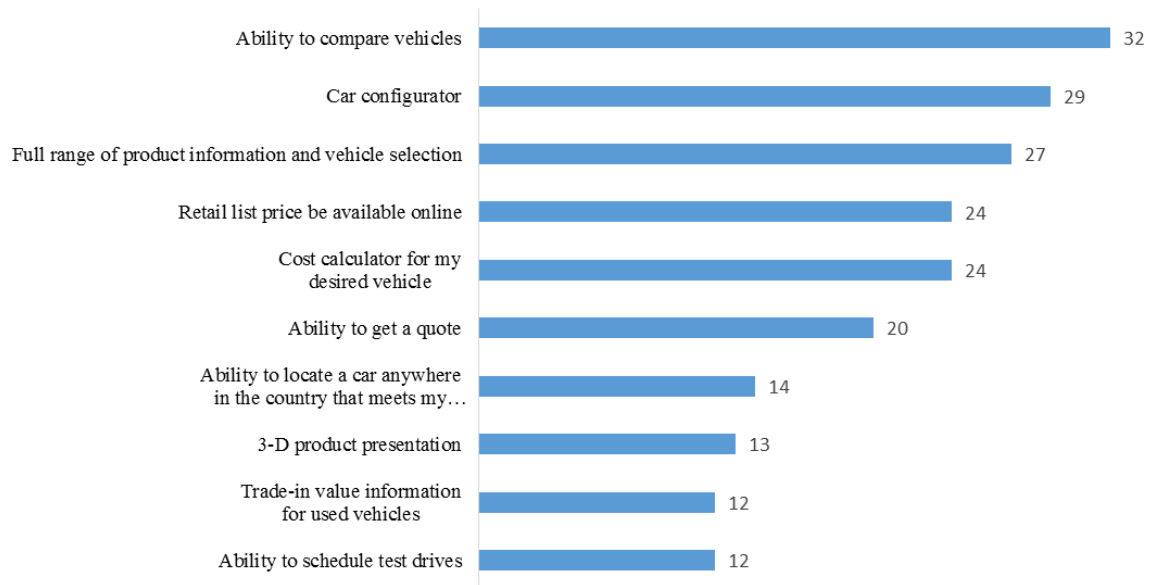


Figure 1. Most expected website options (My Car, My Way. Cars Online 12/13, Capgemini, 2013, p. 16)

Customers using online information sources, both independent and dealer or brand related, come to a showroom with more knowledge than ever before. Using car configurator on producer's website, checking dealer's reputation and finding out opinion on their preferred choices in social media channels, they significantly shorten the decision making process. In this situation dealers often play a role of pre-arranged car pick-up place, sometimes even omitting such typical elements like test drive or price negotiation. This means that dealers instead of active selling and customer acquisition should be able to build general ambience of professional help while choosing a perfect car. Managing various Internet communication, dealers need also to confront the problem of 'trusted content', developing reliable and trustworthy online image.

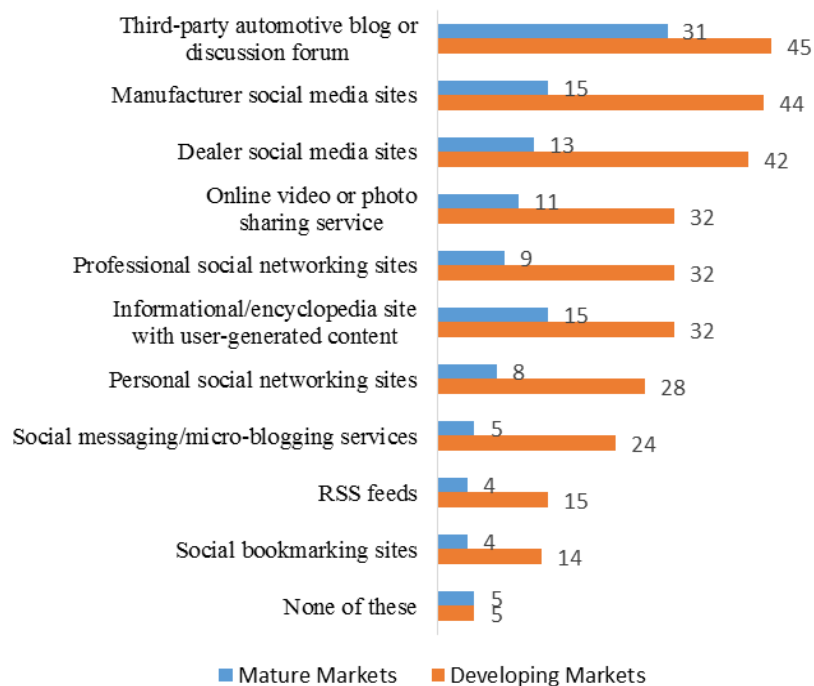


Figure 2. Usage of Social Media (My Car, My Way. Cars Online 12/13, Capgemini, 2013, p. 20)

Availability of Internet and its tools has significantly changed marketing communication. Internet enables and facilitates interactivity with market environment. Using Internet is inevitable and crucial for the effective dialogue with customers but website is no longer sufficient. A significant shift towards new media might be observed. New media that are not only a mean of communication but also a source of information for both sellers and buyers, opinion forum for present and future to be consumers. Being online allows to react instantly to whatever happens on the market. It also gives a chance to differentiate between the content addressed to a wide auditory and a content addressed to a specially selected group. (Woźniakowski, 2012).

Social media are a way of not only promoting the brand but also building and retaining consumer relationships. It is worth emphasizing that brand represents not only physical but also socio-psychological attributes. A car of a particular brand might communicate who the consumer was, is or to which group does he aspire to. Social communities might help to strengthen this sense of belonging, build consumer relationship and promote the brand itself. Among the world wide known channels of social media are Facebook, Twitter, Four Square, MySpace and LinkedIn (Turi, Smith & Kemp, 2013). The necessity of shifting towards new media, including mobile devices is inevitable. A smartphone is an integral part of everyday life all around the world. Numerous mobile applications allow to inform, check, consult, praise, complain, invite and many more. Buying a car is one of the most important purchase decisions one has to make and smartphone will be of great help, being a mobile data source. Opinions of other users, that can be found online, are far more credible than those of experts, therefore it is so crucial for automotive industry to embrace possibilities of new media – the 24/7 world. Exceptionally important in this interactive world is ability to react to the complaints posted by customers on social media sites important. Social media seems to be made for people to complain. While on traditional websites, like Google+ or Cars.com most reviews are positive it is opposite in social media, where three out of four reviews are negative. Knowing, that 80% of dealership reviews are posted using media such as Facebook, there is a lot of activity needing attention of the dealers (Barkholz, 2013, p. 26).

American consulting and research company L2 proposed following categorization of companies using IT tools to promote their offer and connect with customers (L2 Digital IQ Index Auto 2014, June 2014):

- Genius, being those who compete on the basis of digital competence and employ a wide range of shopping tools that are available on mobile devices. They invest in SEO and lead advertisement campaigns resulting in developing communities.

- Gifted, that are experimenting and innovating across www, mobile and social platforms in consistency with brand image and other marketing efforts.
- Average with predictable and functional presence online, often fragmented across platforms.
- Challenged – lacking consistency, inspiration and utility.
- Feeble, meaning those who do not invest accordingly to opportunity.

The structure of the market according to above types is presented by following figure.

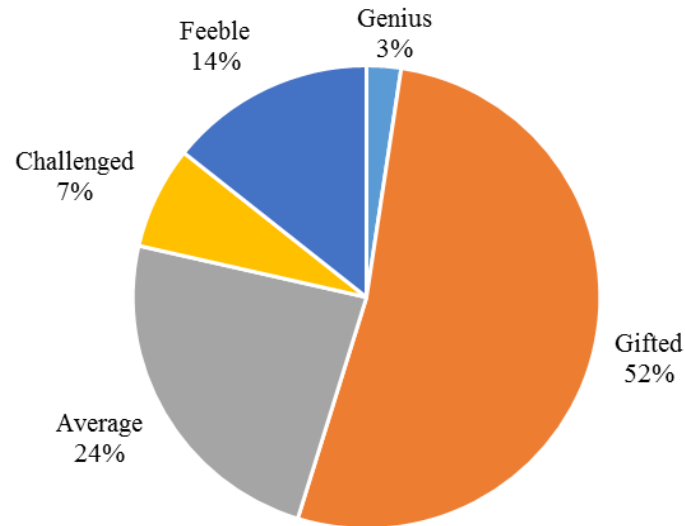


Figure 3: Structure of car brands on US market according to L2 IQ Index types. (L2 Digital IQ Index Auto 2014, June 2014)

Also another approach can be taken – one regarding innovativeness of the dealership. First group will constitute of dealers that use Facebook, because they have heard that they need to be on Facebook. They do not update, use it or measure it. The second group tries to gather fans to improve search results with search engines. The third uses Facebook like a mass-marketing tool and presents classic advertisement in the new media. Finally, the fourth engages the whole team to actively promote brand both through dealership fanpage, as well as via personal ones. What is important though is that Facebook is not about sales, but rather connecting with other people, therefore instead of developing sales, dealers should provide advice on buying cars, offer their knowledge or in other ways add value for Facebook fans (Jingwen, 2011).

L2 reports further state that after investigating social-driven leads, up to 15% of conversations result in test drives. Single lead cost is estimated at \$2 and it takes 67 leads to sell one car. Facebook, being the most important social platform for car dealers covers 65% of social conversations about vehicles. The usage of social media by brands in US is shown on the figure below.

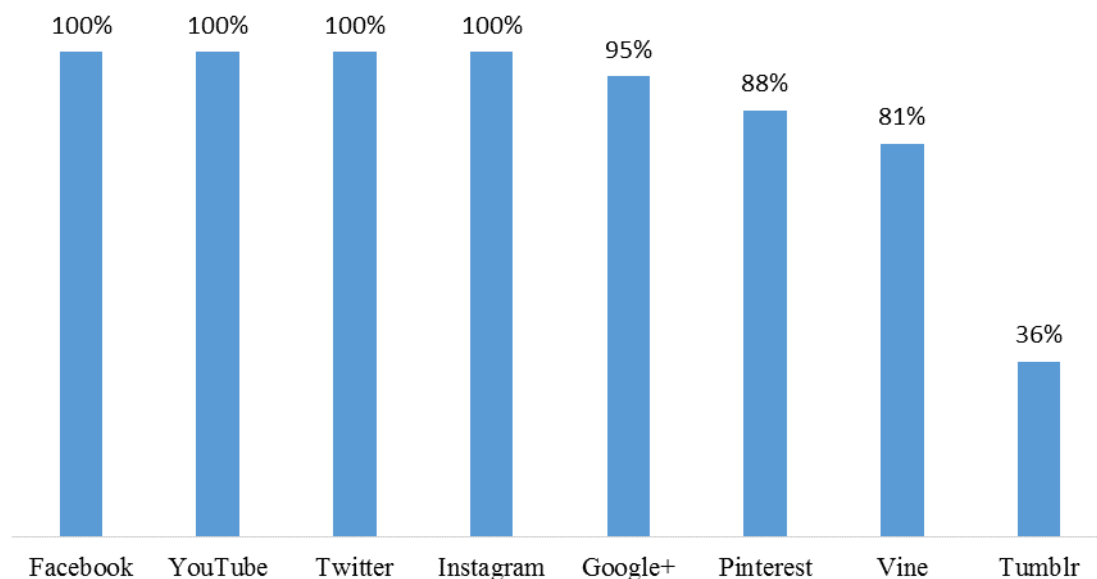


Figure 4: Usage of social media by brands in US market in 2014 (L2 Digital IQ Index Auto 2014, June 2014)

Although there is no similar research describing Polish market, there are reports describing social media presence of dealers in social media environment. Press-Service Media Monitoring company analyzed 460 dealership Facebook profiles for 38 car brands in 2013. Although those profiles were followed by almost 300 thousand fans, 60% among them had less than 200 fans. The best profile gathered more than 40 thousand followers. The trend can be explained. Most popular fanpages are those, which apply to emotions and are active – only 80 (17%) dealerships posted at least 5 posts each week. Pictures are a dominant form of the posting (54% of the posts). Number of fans and posts though are not as important as how people interact with them. With average PTAT index (People Talking About This) at 3,34, there were also dealerships with PTAT=513 (Mitsubishi dealership). Average likes level with 16,6 likes per post was countered by record of 129 likes per post (Lexus dealership) (Szczupak, Borkowski & Ścibor, 2014).

Dealers as a group do not get proper media attention. According to another Press-Service report, only 22,5% of media traffic included the name of specific dealership brand, and 16% used the phrase ‘dealers of the brand’. 67% of the media referrals were online, with majority being short notices (Dealerzy samochodów, Raport medialny 2010). CNW Research says, that 41% of US car dealers have Facebook pages. Most of them employ outside companies to manage those sites – assist with strategic planning, post notes and other social-media activities. They offer chat sessions with Internet shoppers, directions to dealership, presentations, including video and other information that will support the decision making process and convince to visit the dealership and close the deal. Some of the dealers state, that Internet sales generates 30% of company’s income with 70% of total business starting at the website (Graham, 2011).

One of the ways dealers can adapt to changing purchase patterns is redefining sales and communication strategies. J. LaReau gives an example of a dealership allowing its salesman an individual approach. That includes developing interpersonal links – using personal website, phone number and social media such as Facebook, Twitter and YouTube to build referrals and eventually sales leads. Although such strategy promotes a salesman brand instead of that of the dealership, the latter profits from growing turnover (LaReau, 2014, p. 16). Yet, such strategy seems unique. Chief Marketing Officer Council in US interviewed senior marketers from car brands, dealer networks and service providers. Although all understood the importance of social media as a tool to understand and connect with customers, majority was just beginning to implement social media into marketing strategies. The most important tools for marketers are still search, email, online advertising and digital loyalty programs, and not social media (Vizard, S., 2014, p. 11). Social media should be perceived as

potential marketing channels not only for the brand itself but also for dealership and services. According to the report *Turning Social Feeds into Business Leads* by CMO Council:

- 38% of consumers will consult social media in making their next car purchase,
- 23% of car buyers use social media to communicate their purchase experience,
- 84% of automotive shoppers are on Facebook, and 24% of them have used Facebook as a resource for making vehicle purchases,
- 40% of new car purchases over the next 10 years will be made by millennials,
- 94% of millennial car buyers gather information online,
- clicks on Facebook auto ads climbed from 16% to 39% between October 2012 and April 2013.

Different companies, specializing in online promotion, tailor their offer to the needs of automotive dealers, underlining the importance of Internet as a referral source for customers planning to buy a car. Web Search Factory (www.websearchfactory.pl) cites research that says 70% of people planning such a purchase search Internet and 35% admits, that this information helped them to choose the brand and the model (Motoryzacja: Samochód prosto z... Internetu). The same research states that the majority of customers is not bound to any chosen dealer prior to purchase. Web Search Factory promotes its services by asking questions important for online presence: is your website user friendly and easy to navigate? Do you know what users think about it? Which internet users are the most profitable for you? What is your ROI from online campaigns? The company offers following tools to support business activities of dealers:

- website positioning to help search engines to direct the traffic to your offer, when user searches for keywords such as 4x4, SUV, family car and similar,
- carefully prepared and eye-catching landing page to which customer will be redirected from an email, ad banner, sponsored link or search engine,
- virtual avatar, being an artificial assistant to visitors reviewing your website and presenting the offer – cars, accessories or financial services,
- live chat module to connect directly with dealer's personnel that will provide further answers to customer's enquiries and increase the possibility of real-life visit to the showroom,
- web public relations to take care of dealer's brand and showroom image.

Although first points apply to IT employment into dealer's marketing, the last one refers directly to the fact, that Internet offers space for customers willing to exchange their experiences, both within the customer group and with the dealership. Managing online public relation means knowing what and where people write about dealer's brand, replying to all seeking attention and covering cross-media communications that will result in desired and consistent brand image.

The importance of the information sources other than producer or dealer related can be also seen when comparing the traffic on brand and non-brand YouTube channels. The most popular car brand channel, Volvo trucks, has 128 million entries and 98 thousand followers (<https://www.youtube.com/user/VolvoTrucks/about>), while the most popular car-related channel, Top Gear, has 774 million entries and almost 4 million followers (<https://www.youtube.com/user/TopGear/about>). Polish top channel, being an internet offspring of popular automotive magazine 'Auto Świat', reaches modest 20 million entries and 17 thousand followers (<https://www.youtube.com/user/autoswiatv/about>) and still needs to improve its content quality. The reason behind the popularity seems obvious: channels not connected to a chosen brand have a more unbiased image: test various cars, provide interviews with the variety of opinion leaders, inform about new products. Such profile builds trust and attracts loyal followers.

After a brief setback of 2008 crisis, advertising expenditures on Polish market kept growing and reached 5,6 mld PLN (not including the online advertisement). Automotive branch covered 6,3% of this amount (Equinox Press Release, Najwięksi reklamodawcy w Polsce w 2013 roku). In comparison, expenditure for online advertisement in 2013 exceeded 2,4 mld PLN with a 10% increase. Automotive sector had the biggest share in this amount, averaging at 16% (384 mln PLN). Among the most popular channels report names online videos, social media and reach-media sites. Together they covered 43% of spending in 2013. (adex 2013, IAB Polska/PwC). In the first quarter of 2014 expansion of online communication continued: spending increased by 7% comparing to the first quarter of 2013. Automotive related spending covered 22% of that amount (adex 2014, IAB Polska/PwC). Figure below represents the usage of social-media channels by car dealers in Poland.

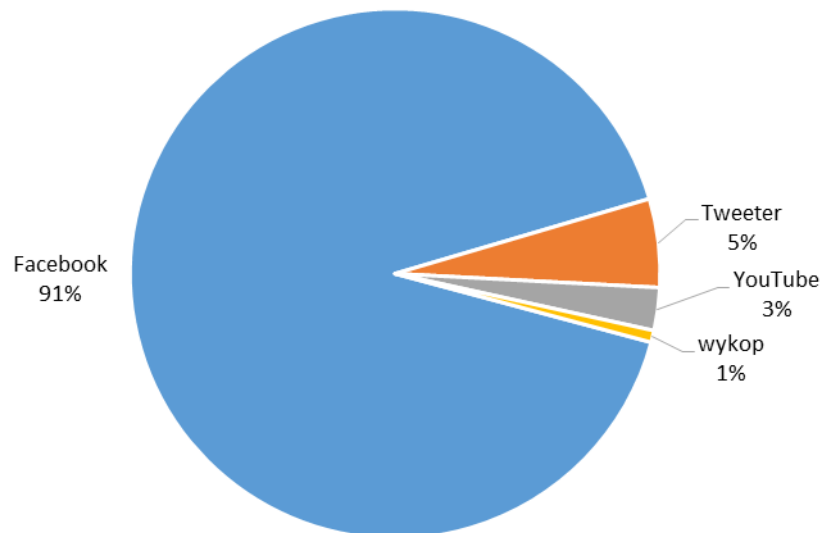


Figure 5: Usage of social media for automotive topics in Poland (Moto Social July 2013, Press-Service, 2013)

10 years ago, a research describing the buying patterns on automotive market in Poland found, that more than 26% of people buying a car, stated that they would be willing to buy a car online. When offered additional 250 euro off the showroom price, this number rose to 70% (Osip, 2006). In Poland, only 18% of customers start the process with the visit at the dealers', while 60% start it online. 76% gather general car information, 82% compare and analyze chosen models, 77% choose the seller (Klukowski, 2013, p. 60-62). Research also showed, that typical customer visits not more than 4 dealerships before final purchase, with increasing number of those, who visit only one showroom to get the car. According to ICDP's research 75% of Polish customers buying new cars declared performing significant transactions online (Young, 2011, p. 36-38). Polish dealers just started perceiving social media as a way to attract customers. Insignificant number of Facebook profiles and blogs is accompanied by old-school websites. When dealer focuses on one channel, other are neglected. Communication still lacks an integrated approach that would incorporate all possible marketing communication channels. Furthermore using all sorts of media needs to be coordinated.

The data gathered shows that everyone involved in automotive market understands that there is no possibility to exist without online communication. But the very fact of understanding does not necessarily mean that such communication is thoroughly planned and consistent with other marketing efforts. Even brands like Bugatti or Lamborghini have problems with their Internet presence. Being online, with frequent and attractive updates, quick response to any incoming questions and using proper measures to observe the traffic in classic Internet channels and social media can result in increasing number of followers. Using broad range of sources, such as social media, loyalty programs or other, dealers can collect more customer information than ever before. They can use it to provide richer and personalized offer with more appealing promotions. Customers, when satisfied, will provide positive advocacy for a dealer, and in result, increase in sales. But social media are a two-edged sword, on the one hand it is an inexpensive way of sending a message to media, customers, users, experts on the other hand it is very difficult to control. When using new technologies dealers should not forget the basics of marketing: they should understand their audience, send coherent message throughout all media-mix and continuously monitor the effects of their actions.

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Increasing role of a female customer on the automotive market

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Abstract

Men and women differ significantly in terms of consumer behavior. Their decision making processes are often triggered by different factors. While men tend to be more hedonistic and associate buying a car with pleasure and building self-esteem, women are inclined to be more pragmatic.

Women are often treated by the automotive industry in a stereotypical way and their role as car buyers is severely underestimated. But they are not only passengers anymore. They are well educated, professionally successful, earn more money and very often become entrepreneurs. That makes them a significant car buyers segment with specific needs and expectations that should be, but very often still are not, met by the car industry in general. Depending on the statistic women influence around 80% of car buying decisions in Europe and USA, in half of the cases they are the buyers themselves.

The aim of the article is to emphasize the importance of the significantly growing female buyers segment in automotive industry. Authors analyze secondary data describing the role of women in automotive industry, their buying habits, needs and factors influencing their decisions. It also contains suggestions how to adjust marketing strategies to this specific group of customers.

Increase in disposable income and wide range of finance possibilities offered by car dealers result in a growing number of cars bought every year. The dynamic growth of women car-buyers segment, together with observable changes in women car-buying behavior account for a new challenge for car dealers. This is a substantial group of customers that should not be underestimated. In order to be able to capture this new customers market, first they need to learn about its characteristics and determine the key indicators of its buying patterns. Understanding buying behavior is vital for marketing and sales since it allows not only to influence but also to encourage the purchase of particular products. Buying behavior has evolved over the years and became very complex mainly due to wide range of products and services offered, new communication channels and increasing expectations of customers (Monga, Chaudhary, Tripathi, 2012). It is important to acknowledge the fact that there are some major differences in consumer behavior of men and women and that therefore all marketing activities should be adjusted depending on the goal set. In demographic market segmentation, gender is one of the variables among age, income and religion that is taken into account when dividing markets. This paper emphasizes the need for different approach towards male and female customers, simultaneously indicating the growing role of female customers in general, focusing on the automotive market. (Silverstein, Sayre, 2009 – female economy).

Increasing gender equality has important economic implications, among many others, women gain bargaining power on household spending. In 'Who Buys What' report (2007) it is estimated that women influence around 80% of all household spending. Middle-class women are more likely to buy goods and services that improve the welfare of the household, that is: food, healthcare, financial products, education, childcare and consumer durables (Lawson, Gilman 2009). Globally women are responsible for 20 trillion USD in annual consumer spending while they earn around 13 trillion USD yearly (Fig. 1). Women are simultaneously primary spenders and savers, that might indicate that they seek value.

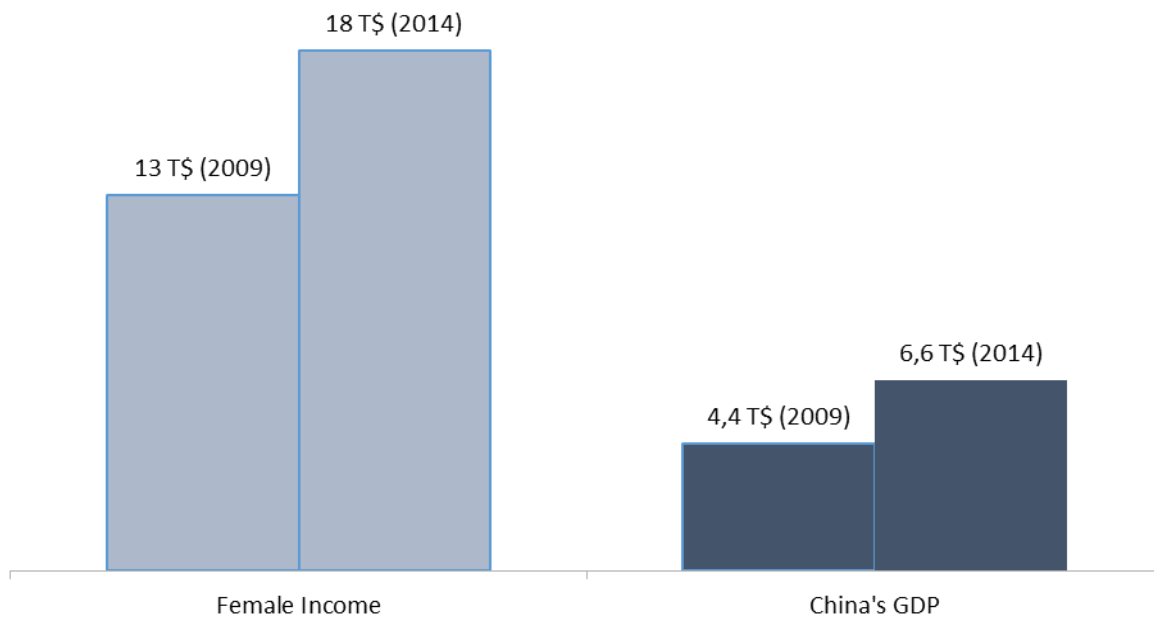


Figure 1: A growth forecast of female income in comparison to China's GDP (in trillions USD) based on The Female Economy, Harward Business Review, p.4

According to data gathered from 12000 surveys on women from 22 countries (Silverstein, Sayre, 2009) women decide about:

- 94% of home furnishing purchases ,
- 92% vacations purchases,
- 91% new home or a flat purchases,
- 60% car purchases,
- 51% electronic devices purchases.

Additionally data recalled by Dychtwald (2010) indicate that nowadays women buy 52 percent of all new cars sold in the USA and influence over 85 percent of all car purchases what makes the fastest growing segment for both new and used cars. Yet car industry does not pay enough attention to this consumer sector and often fails to communicate properly with female customers - 74 percent of women stated that they are misunderstood by car marketers (Frost, Sullivan, 2014). In another survey (Silverstein, Sayre, Butman, 2009) women indicated the following business categories are frustrating and least appealing to them:

- investment,
- automotive,
- banking,
- life insurance,
- healthcare,
- car insurance,
- PC,
- working clothes,
- hospitals,
- property development services.

This shows that automotive industry is still perceived as a masculine market segment. To focus on female customer it is advisable for the car dealers to follow the four Rs – recognize, research, respond, refine. The first step is to recognize the opportunity as female buyers are concerned followed by extensive research of how the

purchase is consumed with a strong emphasis on the total time a woman requires to make the decision about buying a car. Responding is about creating new solutions and innovations in a way no other brand has before. It might be babysitting while test drive or an overlay for the front sits that children sitting in the back constantly kick and dirty with their shoes. Regarding automotive industry, speed is not what women seek but utility is since a car must usually accommodate a mother, her children and optionally a dog. It is vital to remember that women refuse being treated like mothers only. Their strong need to feel attractive cannot be underestimated. Refining refers to creating a long lasting relationship with a female customer. Female customer satisfaction often results in customer retention and a positive image in mouth to mouth marketing that women specialize in (Silverstein, Sayre, 2009).

When buying different products, customer undergoes a multi staged decision making process. Each stage of the process refers to different attitude toward purchase activity and different involvement. Although it can vary depending on the product category, it usually involves all the steps illustrated by the figure below.



Figure 2: The Purchase Decision Making Process (Kotler, 2001)

The decision making process begins with recognizing a problem or a need. Purchase decision is supposed to solve an existing problem or satisfy the defined need like the need for a second car in household, for the bigger – family car or for a small car just for commuting. In the second step of the decision making process, the buyer gathers data, information and opinions in order to be able to make a subjectively rational choice. Evaluating possible alternatives is the third step of the process. After that the decision is made. The last stage consists of comparing the performance of a car with the expectations. Met or exceeded expectations satisfy the customer, but performance worse than expected will be disappointing. The more consumer is involved in the decision making process, searching for data and analyzing the purchase the more severe the disappointment will be.

Although the process itself is common for both men and women, there are some distinctions to be emphasized. The way one wants to solve an existing problem or satisfy the existing need is driven by motives that might be different for male and female customers. According to psychologists the motivation to buy goods is evoked by two major factors - hedonic and utilitarian considerations. While men tend to be more hedonistic in the decisive process and associate buying a car with pleasure and building self-esteem, women are inclined to be more pragmatic car buyers (Trevisan, Jakobs, Schmitt, 2013). Hedonic considerations are connected with promotion goals the achievement of which elicits positive emotions such as pleasure, excitement, fun and confidence. What follows, goods fulfilling hedonic motivations make a consumer feel better. On the other hand, the utilitarian considerations focus mainly on prevention goals the achievement of which reduces the possibility of experiencing something negative and provides the feelings of safety and security (Alba, Williams, 2013). As a result buying utilitarian goods makes an individual feel smart and responsible. Study results (Chitturi, Raghunathan, Mahajan, 2008) reveal that consumers follow these two basic motivations whenever they purchase goods. Yet their influence on consumer decisions is considered to be the largest in case of major purchases such as houses or cars. When it comes to cars, the hedonic aspects may concern their price, technical details, shape or the prestige they bring. Sports cars or convertibles serve as good examples of vehicles based mostly on hedonic considerations. On the other hand, utilitarian functions of cars reveal in such details as safety rating or gas mileage. In this case a minivan may serve as a typical example.

Depending on the motivation various data will be gathered to support decision making. Men and women search for information differently and pay attention to different aspects of future purchase. Women turn out to be sophisticated users of new technology including Internet and social networking. Not only do they shop for cars online, but also they often share their opinions and experiences at the dealership with others on review

and rating sites as well as through social media e.g. Facebook what makes them a powerful mouth to mouth marketing tool (Fleming, 2013). Based on the data gathered, the alternatives are being evaluated. Which car of what brand does the buyer want to buy is equally important as where to buy it. While targeting women as potential customers, car dealers should think of providing a visual eye-catching website content by for example creating a video presenting the positive atmosphere in the showroom and the service area which give them an opportunity to have a good cup of coffee, read the latest news as well as bring their children with them to spend time in the playing area (Fleming, 2013).

Throughout the whole decision making process one remains under the influence of the reference group or groups. It is however most vivid in the evaluation of alternatives and purchase decision stages. Reference group consists of all people that influence one's behavior and attitude. For automotive industry membership group of reference is to be focused on. It consists of family, friends, neighbors and coworkers with whom one interacts. Aspirational groups of reference should also be taken into consideration. A new car might be a chance of joining the group one hopes to become a part of (Kotler, 2001). It is important to keep in mind who takes part in the process and who gets to decide. For the marketers the basic question is not who pays but who buys. Five roles might be attributed to buyers (Kotler, p.2001):

1. Initiator
2. Influencer
3. Decider
4. Buyer
5. User

It is very common that a person initiating the purchase, deciding about the purchase, actually purchasing and the person that uses the purchased good is not the same person. Man might need a car but the decision might be joint or even entirely made by his mother, girlfriend or wife.

Every customer uses value calculus when considering a purchase which is the fourth stage of the process. Knowing what values are the most crucial for women will help to adjust the vehicle, dealers room and service offered (Silverstein, Sayre, 2009). According to various sources family, attractiveness and professional success are three most important elements for European women, usually pointed in that order (Pawlikowska, 2011).

Marketing psychology approaches advertising a product from the buyer's point of view by asking what human motivations can it satisfy and in what way. It highlights the principle rule that people in fact do not want the product itself, but they want to satisfy their motivations through buying it. They want the answers to their problems, solutions to their needs and wants as well as pathways to their desires. Car dealers in order to drive up sales, market their offer in many ways by catering to the emotions, needs and desires of a typical customer. Yet, the most effective marketing strategies are based on discovering how to evoke these emotions, meet the needs and desires requires taking into account the psychological perspective. From this perspective the product can be seen as a lever which a buyer uses as a means of achieving particular goals. Every product has at least one of the four key motivators which can be used to attract and convince buyers - needs, wants, desires and fears. Needs are those considerations which must be met by the product. On the contrary, wants stand for the motives that buyers would very much like to satisfy, but they are not requirements. Desires go even a step further, they are like hopes or dreams – a satisfaction that is not even expected, but wonderful to think about. What follows, consumers require products to fulfill their needs, expect them to satisfy their wants, but it is a pleasant and unique surprise when they desires are met by it. Fears constitute a separate group and can be divided into two different types – omission and commission. While omission fears are connected with the possible negative results of leaving things the way they are by taking no actions, commission fears touch upon making the wrong choice. Fears can serve as strong motivators, but they can also hold buyers back by balancing their needs, wants and desires in making their final purchasing decisions. Therefore a marketing strategy based on psychological assumptions should always take also the buyer's fears into account. Understanding the true buying motivations of its customers and finding the key motivators in the offered product can make a company dominate its industry (Witt, 1999).

Understanding the psychological background of women car-buying behavior can lead to the optimization of actions aiming at attracting them as potential customers. The challenge is to gain a deeper understanding of this particular market, which for many years has been considered lacking adequate spending power to catch the attention of auto marketing efforts. It is significant for the car dealers to stop treating women in a stereotypical way and make an effort to recognize their full present identity (Fleming, 2013). It is vital to

understand that in most cases contrary to men buying a vehicle is not an emotional purchase for women. Females look for practical cars which fit their lifestyle. They expect the vehicle rather to fulfill their need than a want what makes them often more interested in smaller, maneuverable and more gasoline efficient cars. Women also are typically precise about the features their vehicle should possess such as e.g. park-assist options or integrated systems for mobile devices and entertainment. They also pay attention to the quality of the materials, the color and the sustainability of the car. It is highly probable that in the close future females will favor vehicles autonomous driving systems accompanied by wellness and well-being features (AutoTrader.com, "Female Car Shoppers: The Purse Powers the Pedal).

Women act through processes, they think contextually and holistically. They have a greater ability to imagine the feelings and thoughts of others. It is important because they build their selfimage basing not only on their own feelings and observations but also on opinions of others. Empathy is what women base their interpersonal relations on, they get closer to others through conversation whereas men achieve the same through joint execution of tasks. Conversation itself is not enough, men prefer form of reports whereas women contact. The need to discuss events, ideas, consult decisions and share experiences is characteristic for women and should be taken into account by marketers of all kind. Satisfied female client will be willing to come back to the same dealer and recommend him, dissatisfied however can substantially spoil dealer's image. Visual elements must not be underestimated. The looks of a car is equally important as of the dealer's room or the dealer himself. The need to be attractive and surrounded with beautiful objects is crucial. Color, shape, facture, it all contributes to female customer's satisfaction (Pawlikowska, 2011).

It is also essential for car dealers to develop their online marketing strategies aimed not only at men, but also at women by highlighting the simplicity and pleasure of purchasing and servicing experience. It is also worth taking into account that according to study results women are using images more often than the written or spoken word to gain information on the products they purchase (Fleming, 2013).

Women are impulsive buyers but only as far as basic, everyday use products are concerned. Impulsiveness might be expected when products bought are of small value, not when buying a car. Buying a car is both second most important and expensive decision next to buying a house. Women like to communicate in an honest, open dialogue and it is important for them to see the dealership as supportive and paying attention to their specific needs. The way in which a car dealer interacts with a women customer determines to a high extent whether she decides to buy the car and if she remains loyal to the brand once the purchase is done. Building a story around the car, the benefits it brings as well as the special role your customers play in your business may be inspiring. It is also essential to focus on the right aspects of the car such as its safety, looks, easy driving or parking solutions more than its performance or technical details (Fleming, 2013).

In conclusion, it is significant for car dealers to pay attention to the dynamically arising customers segment, to look at it from a new, unbiased perspective and to learn its characteristics and expectations in order to be able to prepare a properly targeted marketing strategy. It should take into account also the psychological considerations, which among others put emphasis on important gender differences between male and female car buyers concerning the purchase decision making process and the distinct motivations standing behind it. In order to increase their sales car dealers should be trained above all as far as advertising to women and communicating with them is concerned. Using Internet as a vital marketing tool, providing visual materials, building trust, listening to women car buyers and giving them appropriate attention constitute some of the possible suggestions.

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Competing for Value Creation and Value Appropriation: Dealer Strategy in Automotive Industry Architectures

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Abstract

The interplay of firm strategies and coordination policies within firm architectures has been an interesting research topic for quite some time. Performance and advantages are influenced by elements such as complementarities and mobility that in turn are shaped by the coordination choices adopted. In the automotive industry much focus has been dedicated over time to upstream activities with little attention to the strategies and performance of dealers who are the smaller players in the chain. This paper carries out an exploratory analysis based upon a longitudinal study of larger dealers in the Italian market. The analysis provides some insight on how some dealers appear capable of creating / appropriating a greater share of value by reducing their dependence from the manufacturer. This consists in undertaking inter-architecture (multi-branding) and extra-architecture activities (used cars).

Keywords – Automotive, Distribution, Strategy, Industry Architectures.

1. Introduction: value-creation industry architectures and firm strategies

How firms achieve sustainable superior performance is a topic that has occupied a large number of scholars for quite some time. Efforts have ranged from a marked focus on the firm positioning choices (e.g. Porter, 1985), through much attention to the resource base of the firm (e.g. Barney, 1991), including a more recent attempt to use the business model unit of analysis as a conceptual and operational tool to understand how firms generate and capture value (e.g. Magretta, 2002; Baden-Fuller & Morgan, 2010). This topic acquires more peculiar traits and to a considerable extent it becomes more complex when the focus broadens to encompass more firms operating within a supply chain as the conduct and the performance of individual firms are influenced by one another.

The specificity of firm assets that come into play within relationships can become a basis for superior performance (Teece, 1986): in such sense co-specialized assets act as amplifiers of performance but at the same time determine bilateral dependence for the firms involved. More broadly, varying forms of inter-firm linkages and their idiosyncratic nature become a source of relational rents and competitive advantages (Dyer & Singh, 1998), with relation-specific advantages that can stem also from cooperation in a vertical chain (Asanuma, 1989).

The issue of co-specialization (i.e. bilateral dependence, complementarity and mobility of assets) is therefore a key factor within supply chains that over time have been investigated by using an evolving and articulated set of lenses to try to capture the phenomena involved. Some contributions over time have highlighted how a considerable share of value is generated outside the traditional Porterian value chain creating 'value constellations' (e.g. Normann & Ramirez, 1993). Other have used the term 'business eco-systems' (Iansiti & Levien, 2004) while others have brought forward the notion of value-creation industry architectures (Jacobides et al., 2006). One of the key areas of interest is trying to understand the varying degrees of focus on value creation vs. the focus on value appropriation by firms. Also, some firms within chains manage to obtain architectural advantages in terms of high levels of value appropriation without the need to engage in vertical integration.

Jacobides et al. (2006) have tried to build on the concept of co-specialization by investigating further the elements of complementarity and mobility. In brief, while complementarity influences the size of value-

creation (i.e. some combinations have greater value than others depending on their 'fit'), mobility influences the bargaining power of actors thus the resulting division of value. In the classical case of co-specialization described by Teece (1986) an asset features high complementarity (in other words it acts as an amplifier of performance for two or more firms involved) but at the same time it typically features a low degree of mobility, meaning that it is hard and/or costly for other firms to access such resource. In this perspective, assets (resources) with high complementarity and low mobility represent therefore desirable traits for firms operating chains. What Jacobides et al. (2006) have argued is that a firm might want to ensure that there is substantial mobility in the complementary assets as this might induce freer competition and entry in these assets (or parts of the production process). Therefore dominant players in chains could act accordingly by enhancing mobility rather than restraining it (for example a manufacturer coordinating its distribution network could set varying degrees of conditions for entry/exit in the franchising scheme). While it is not possible to deepen the articulated reasoning proposed by these authors within the framework of this paper, it is interesting to point out that they then bring forward the notion of 'bottlenecks', that is players capable of controlling a segment of the value chain that cannot be substituted easily and therefore becoming hardly replaceable.

Within this range of arguments, it is quite interesting to try to ascertain what share of the value generated in chains (architectures) can be captured by smaller firms vis-à-vis dominant players considering that the performance is influenced by the coordination strategy (i.e. policies, standards and practices in a distribution network). Also, it is quite interesting to try to ascertain whether smaller firms manage to perform by also operating outside the architecture or by creating links to other architectures (vertical chains coordinated by other dominant players). The latter embodies a situation of inter-architecture activity.

The automotive distribution industry is a very fertile ground for investigating some of these issues (e.g. Dietl et al. 2009). The next section will provide a frame of reference of its main traits before moving on to the research effort that is the focus of this paper, dealing with some exploratory research within a larger research project.

2. Coordination and strategies in the automotive distribution industry

As anticipated, the automotive industry is a fertile ground to investigate industry architectures that have been evolving both upstream (manufacturer-supplier relations) and downstream (dealer networks). It is in fact a quite complex chain that includes suppliers (manufacturing components), OEMs (Original Equipment Manufacturers that is the automotive companies acting as dominant players), NSCs (National Sales Companies representing the distribution node in each country), the network of franchised dealers in each market, plus an array of complementors providing a wide range of products and services that are relevant to marketing and distribution activities (e.g. dealer management systems and other technology services, financial services, warranties, after-sales and parts).

Over time the automotive industry has established a pattern of vertical quasi-integration by orchestrating a system of selective distribution with franchise standards. Throughout its century-old history, manufacturers have managed to create an asymmetric situation by exploiting for quite some time favorable market conditions fueled by mass motorization (a seller's market) that created opportunities of high profits for car manufacturers (Buzzavo and Volpato, 2003). 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. All this changed dramatically starting in the end of the XX century, with a shift to a buyer's market, with 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.).

Manufacturers are pressed to reduce costs and have started to change the size and structure of new car selling margins for dealers.

Over time the context of oversupply has induced an increase in customer rebates (that erode gross margins), while manufacturers have introduced more and more elements of variability, that is dealers are required to meet certain standards of achieve specific parameters (these include a considerable deal of brand-specific investments and procedures) in order to receive the margin. Commercial campaigns managed by

manufacturers (on top of margins) have become critical for the economics of the dealerships over the last decade. This means an increased scope for control by manufacturers towards dealers through economic means. While in most cases the total gross margin plus campaigns minus customer rebates has not varied much over time, it should be considered that the reduced sales volumes due to the market downturn generally translate into negative consequences in profitability.

On the whole, margin schemes and campaigns have grown in complexity and bureaucracy to a level that dealers generally consider quite burdensome. This to some extent takes away focus from value-added activities (such as customer prospecting and so on) to complicated and bureaucratic tasks.

Economic pressures have triggered a trend towards retailer 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 (see Figure 1).

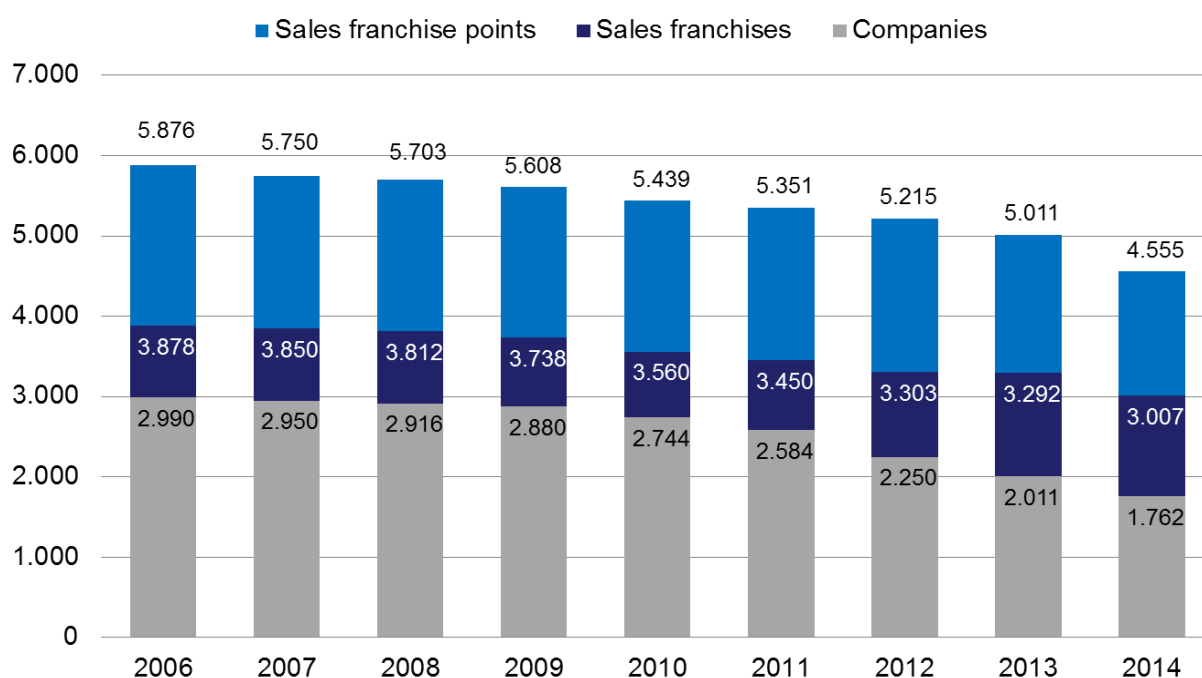


FIG. 1 Trend in franchised dealers (Italy) – Source: our elaboration from direct data

Following these transformations dealers have started to review their business model seeking to compensate the profit pressures (Buzzavo, 2013). It must be pointed out that 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. In other words, their role is quite strategic for manufacturers.

However, the bureaucracy and the conflict in the chain exacerbate the trade-off between dynamic efficiency and control, with manufacturers that are generally continuing to adopt coordination mechanisms evidencing a ‘control’ approach. What matters is whether too much focus on value appropriation by manufacturers seriously risks infringing value creation that is so needed in today’s industry situation. In other

words, distribution strategies that have been shaped by a history of ‘control’ have become somewhat dysfunctional in the current industry conditions.

3. An exploratory look at the strategies of large franchised dealers

As said, automotive distribution chains have evolved with a marked emphasis on control by dominant players (OEMs, that is manufacturers) towards the network of franchised dealers. Relating to the theoretical aspects discussed earlier in this paper, it would be quite interesting to investigate, at the architectural level, how complementarity and mobility interplay when different brands (that is, different architectures) compete against one another. Within the scope of this paper the aim is to look at the firm level, exploring whether some dealers manage to adopt business models (and strategies) that allow them to play as ‘bottlenecks’ and/or to escape the tight boundaries of the vertical architecture (the ‘franchise straitjacket’) by promoting business outside the architecture and/or tied to other architectures (other brands). In other words, we try to investigate whether and to what extent some dealers try to improve their ability to capture a share of the value generated within the architecture, but also look for portions of value outside of it.

In order to gain some insights into this issue, we have conducted an exploratory study as a subset of an existing research project conducted within the ICDP - International Car Distribution Programme. The research construct revolves around the dimension of performance on the one hand and the characteristics of the business model on the other. In order to operationalize performance we consider the ROS EBIT of dealers as the most relevant proxy. With respect to the business model we focus on two major dimensions that are capable of characterizing the strategy of the dealer in question regarding its ability to generate / appropriate value also outside the vertical chain being:

- multi-branding;
- intensity of activity in the used car business.

Multi-branding represents the dealer’s ability to operate also with other brands that fall outside the scope of the manufacturer, hence creating linkages to other architectures. A relevant proxy for multi-branding is the number of brands represented in the franchise portfolio.

The activity in the used car business is closely related to the dealer’s ability to be more independent from the area that is tightly controlled by the manufacturer that is new cars. While the new car business is tightly regulated (standards, procedures, targets on volumes, etc.), in used cars dealers have much more independence and their performance allows to put their entrepreneurial spirit at work. One of the most relevant proxies for the intensity of activity in the used car business is the ratio of used cars sold and new car sold. The higher this ratio, the higher the involvement in used cars (ICDP research over time has shown that dealers with a greater used:new ratio tend to have a greater contribution of profits from used cars within total profits).

We could therefore boil down and operationalize our research question to the following: do dealers whose business model entails more multi-branding (inter-architecture linkages) feature greater profitability than the others? In parallel, do dealers whose business model entails more multi-business (greater intensity of activity in used cars, that is extra-architecture activities) feature greater profitability than the others?

Data has been collected via an annual dealer panel constituted by the 50 largest dealers in Italy during the 2008-2011 period with direct data collection. These large dealers are often referred to as dealer ‘groups’ as each of them constitutes a group controlling more than one company, with a plurality of franchises and location.

4. Analysis of research results: competing across and outside vertical chains

This part focuses on the analysis of the results. Figure 2 provides visual evidence of the various approaches adopted by large dealers in terms of the number of brands represented in the franchise portfolio. Data provide an overall ranking from 15 brands (highest) down to just 2, with an average of 5.74.

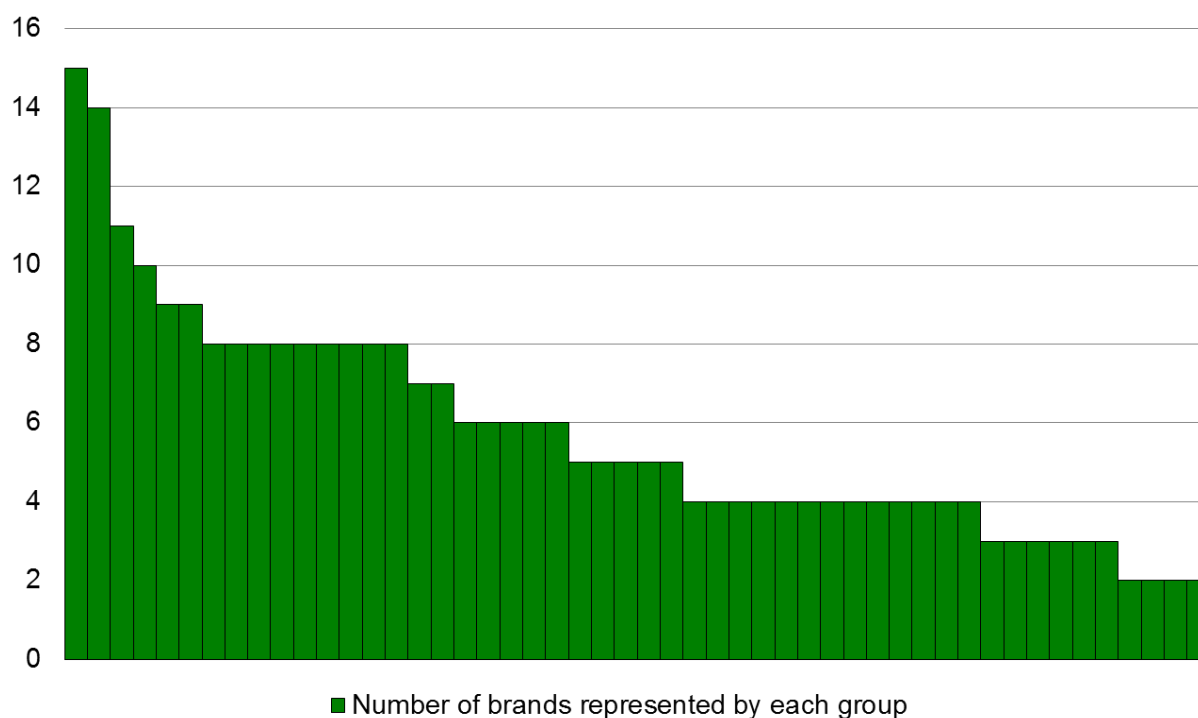


FIG. 2 Panel of top 50 largest dealers by number of brands in portfolio – Source: direct data

We have been dividing this panel of 50 large dealers into three different groups according to the nature of their brand portfolio (see TAB. 1). Some dealers (11 out of 50) operate with one or more brands that fall within the same manufacturer (it is the case for example of Volkswagen and Audi, both among the brands operated by the Volkswagen Group). These dealers have been defined ‘one-manufacturer’ dealer groups and for them the multi-branding strategy is therefore falling within a same industry architecture (that is, under the umbrella of a single manufacturer). Other dealers (15 out of 50) have brands in their portfolio that belong to different manufacturers, however most sales volumes come from just one manufacturer. These dealers have been defined ‘one dominant manufacturer’ dealer groups.

TABLE 1: PERFORMANCE BY TYPE OF BRAND STRATEGY - SOURCE: OUR ELABORATION

	No. of dealer groups in the panel	Average ROS EBIT 2008-2011
One manufacturer dealer groups	11	1.25%
One dominant Manufacturer dealer groups	15	1.29%
Multi-manufacturer dealer groups	22	1.46%
Not assigned (due to incomplete / unreliable data)	3	
Total panel	50	1.36%

Finally, other dealers operate truly multi-brand portfolio, with sales originating from many brands and without any dominant relationship with a specific manufacturer. These dealers (22 out of 50) have been defined ‘multi-manufacturer’ and therefore operate across different brand architectures by holding relationships with

many OEMs. For 3 dealers in the panel it was not possible to identify a brand strategy profile since their structure has been altered significantly during the period considered.

The results indicate that dealers operating a multi-manufacturer portfolio have a greater profitability than the rest (1.39%). Dealers operating a ‘one dominant manufacturer’ portfolio (that is dealers that operate many franchises, but with most sales coming from a single manufacturer) feature slightly higher returns than those operating with just one manufacturer. Albeit it is not possible to establish a direct correlation and there are many factors involved impacting dealer profits that have been left out of this analysis, the data indicate that the lower the dependence from a single brand architecture (that is, the dependence from a single manufacturer), the higher the profits. On the whole, players operating across more than one architecture seem capable of creating / appropriating a greater share of value. We can also argue that this is made possible by reducing the dependence from a single brand life-cycle.

After looking at the brand component of the business model, we can now move on to look at the multi-business component, that is the intensity of activity in used cars, intended as an extra-architecture initiative. Figure 3 provides the ranking of players according to the used: new ratio (ratio of used cars sold to new car sold). This value ranges from just above 1 down to values lower than 0.2, with an overall average of 0.53.

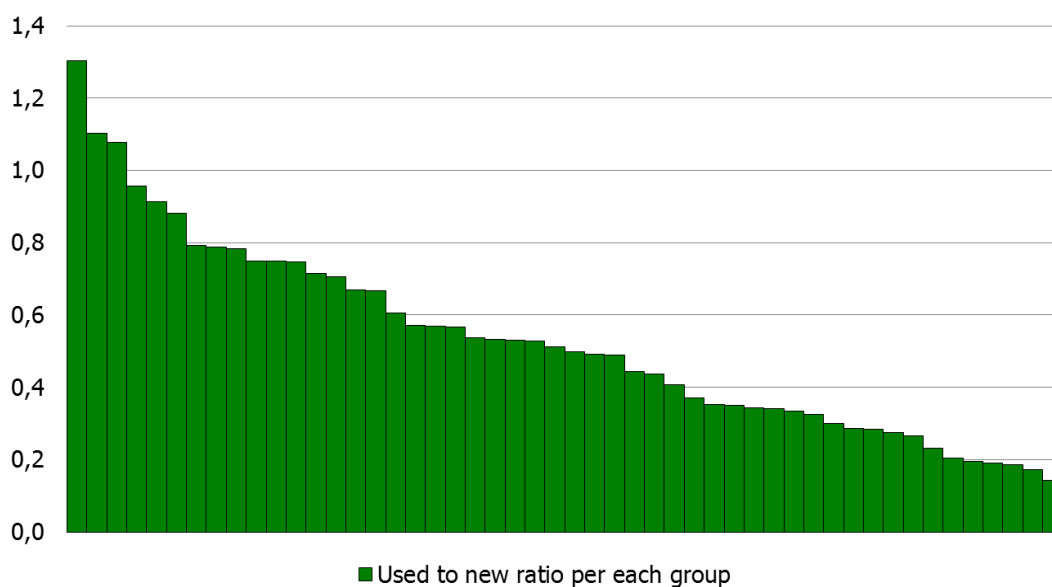


FIG. 3 Panel of top50 largest dealers by used car strategy – Source: direct data

We can split the panel in two parts according to their intensity of activity in used cars (see TAB. 2). There are 20 dealers in the panel with an average used:new ratio greater than 0.53, therefore quite active in used cars, and 25 dealers whose average falls below (5 dealers in the panel have been excluded as the values were not sufficiently consistent and risked affecting the quality of the analysis). Dealers who are more active in used cars feature a much higher profitability than the others over the period considered, with 1.62% ROS EBIT vs. just 1.20% for the rest. In this case, dealers appear to escape the ‘architecture straitjacket’ by promoting a business that allows a greater entrepreneurial independence. Such degree of autonomy in used cars compared to new cars includes the choices on volumes purchased / sold, the operating standards, the reconditioning costs and so on.

TABLE 2: PERFORMANCE BY TYPE OF BRAND STRATEGY - SOURCE: OUR ELABORATION

	No. of dealer groups in the panel	Average ROS EBIT
Dealer groups with lower focus on used cars	25	1.20%
Dealer groups with greater focus on used cars	20	1.62%

Not assigned (due to incomplete / unreliable data)	5	
Total panel	50	1.36%

Over the next and last paragraph we will draw some more considerations and implications on the research results.

5. Implications and perspectives

In this paper we have tried to look at the strategies and performance of players operating in vertical chains. In particular, we have gathered data on the profitability of large dealers who put in place business models that operate within brand architectures (that is with a considerable degree of dependency from a single manufacturers), across brand architectures (by broadening the number of brands in their portfolio) and at the same time carrying out activities outside the specific brand architecture (i.e. by promoting the used car business).

Albeit there are many variables that impact on dealer performance and our analysis does not allow to induce direct correlation, it is significant to note that both the multi-branding and the multi-business elements in the business models appear consistent with greater performance. Therefore it seems that some players appear capable of generating / appropriating a greater share of value both by promoting inter-architecture linkages (multi-branding) and by promoting extra-architecture activities (used cars).

If one looks at the data in more detail (albeit this dimension is not visible in the charts included in this paper) one can see that in the broader time frame (that is between 2008 and 2011), one-manufacturer players feature lower performance but also less variation. On the contrary, peak performers are multi-manufacturer. This would induce us to believe that the dealers operating more within the umbrella of a single manufacturer trade greater profits for more stability over time.

We can also observe from the data that extra-architecture strategies (i.e. used cars) seem consistent with a greater profit boost compared to inter-architecture strategies (i.e. multi-branding). In fact dealers who are more active in used cars achieve average profits that are 35% higher than their counterparts (1.62% vs. 1.20%), while multi-manufacturer dealers achieve average profits that are 17% higher than one-manufacturer players (1.46% vs. 1.25%).

This study falls in a line of activity that aims at filling a gap by improving the understanding of the automotive chain in downstream activities to complement the vast body of research that has been conducted for upstream portions of the chain.

In parallel, this paper tries to inform research questions by pursuing longitudinal empirical analysis that is more valuable than cross-sectional (static) analysis. The output has some relevance both for firm policy (orienting the strategies both of dealer entrepreneurs and of manufacturers) and for public policy, as automotive distribution networks are regulated (particularly in Europe) by vertical restraints legislation that affect the scope of competition and the degree of autonomy of players.

In perspective, more research would be useful to investigate deeper how business models adopted by dealers impact on performance and how the coordination choices adopted by manufacturers in brand architectures (and more specifically the dimensions of complementarity and mobility) affect the performance of players.

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Improving customer satisfaction in automotive industry: the role of dealers in the after sales service¹

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The trigger for positive word of mouth in the after sales service

Abstract

This study aims to study the effect of after sales service experience and its quality on overall satisfaction and word of mouth (WOM) for the automotive service providers in Italy.

Based on the additional marketing mix elements required for services marketing (respectively people, process and physical evidence), we investigated the effects of after sales service experience quality on satisfaction and WOM.

Data were collected through a survey of 210 customers in the automotive service. They were asked to evaluate several items related to their after sales service experience provided by authorized dealers for their car maintenance services. Data were analyzed using linear regression model adopting R software.

Results showed evidence of a relationship between satisfaction and the desire to recommend and supported the fact that after sales service satisfaction represents an antecedent of consumer satisfaction and WOM, at the same moment.

Introduction

One general trend in the automotive industry is that products become more an enabler for beginning relationships with customers. Car sales become a reason to establish relationships, various services help companies maintain them in order to ensure additional financial income. However, the prolonged economic downturn is driving a greater number of original equipment manufacturers (OEMs) to place renewed attention on the aftermarket as consumers put off new purchases and hold on to their cars longer (Accenture, 2010). New car sales growth is slowing, that is still a lot of cars, but an even more promising, and less obvious, opportunity is the aftersales market, including spare parts, service, used car sales, and financing, which serves as an integral component of brand building and sales management. New passenger car registrations continued on the generally downward path started in 2007; since that year they have fallen from 15.6 million to 12.0 million, a decline of 23%. The trend reflects the close relationship between vehicle sales and the economic climate. Accordingly, it is most pronounced in southern Europe, where vehicle sales have decreased by 60% in Spain and 45% in Italy since 2007 (ICCT 2013).

To enable dealer excellence in servicing customer needs, service operations require complex capabilities in terms of tools, processes and systems with no or limited revenue opportunity for OEMs. Despite the significant financial and customer satisfaction impacts of the aftersales business, OEMs have historically given little attention to aftersales and done little to improve the performance of their aftersales functions (Accenture, 2010). Many automotive companies constantly expand their service business and service scope: traditional after-sales maintenance and repair services are supplemented with finance and insurance services and re-formulated into service bundles (Godlevskaja, Iwaarden and van der Wiele, 2011). In an automotive context,

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after-sales service becomes a vital source of brand building as it represents continuous contact between car producers and customers through authorized dealers network during the the product cycle life.

This paper makes a contribution to the literature by investigating the importance of after sales service quality in achieving high levels of customer satisfaction and positive word of mouth. This study is also important to practitioners, since measurable awareness of customer perception of the after sales service based on intangible elements can lead to changes in firm profitability and customer loyalty. This can be achieved through determination of what has been evaluated right or wrong from the customer's perspective and what should be modified. Moreover after-sales services are taking substantive position to the overall satisfaction, the augmented product offered.

1. Literature background

After sale experience in service marketing

After-sales service has been widely used to describe services that are provided to the customer after the products have been sold or delivered. Support entails all activities undertaken by service support providers to ensure that consumers continue to get trouble-free use of the product over its life cycle. An after-sales support strategy associated with a product may include elements such as warranty provision, extended service contract provision, availability of repair service, loan availability, toll-free phone support, returns policy. Some scholars show that the revenue generated from the provision of after sales service and spare parts sales, exceeds three times the value of the initial purchase (Saccani et al., 2007)

Levitt (1983) sees the initial sale of a product only as the start of a seller-buyer relationship, one of that touch point after-sales function of a company crucial. Various terms are used in literature for what here is labeled after-sales service. Goffin and New (2001) list, for example: customer support, product support, technical support, and service. Other several definitions of after-sales service can be found in literature (La Londe et al., 1977; Sterling and Lambert, 1989; Loomba, 1996; Johansson and Olhager, 2004; Kurata and Nam, 2010). Building on these definitions and keeping a general and comprehensive perspective, we say that the after-sales services for manufactured goods encompass the set of activities taking place after the purchase of the product, devoted to supporting customers in the usage, maintained and/or disposal of goods. Earl and Khan (1994) classify after-sales as a business network process, since it has a direct impact on business performance and on the creation of competitive advantage. They might provide complementary services (e.g. field assistance and customer care) as well as competing ones (e.g. field assistance provided by sale points and repair centres or by authorised and unofficial assistance networks). Moreover, the diffusion of Internet and other technologies "expands the number and variety of customer touch points and service delivery channels" (Hill et al., 2002), and, when looking at the supply chain structure, makes the picture even more complex.

Several scholars suggest that well-executed service recoveries increase perceptions of customer satisfaction, build relationships, and prevent customer defections (Keaveney, 1995), whereas poorly executed recoveries can decrease a customer's loyalty to a firm (Mattila, 2004). Well-handled service recovery considerably rises the association between customer satisfaction and both trust and commitment toward the service provider (Tax, Brown and Chandrashekar, 1998).

Manufacturers may make provisions for after-sales service support either by offering it directly at the plant, through their own network of service centres, through channel intermediaries, through authorized independent third-party service centres, or by some combination of these organizations (Loomba, 1996). Product-based differentiation in the automotive industry is increasingly difficult and firms cannot compete on products alone. Many automotive companies realised enormous growth opportunities in the service area. One additional trend in the automotive industry is changing customer requirements to services, growing service complexity and the need to customise services. (Godlevskaja, Iwaarden and Wiele, 2011).

Increasingly, after-sales customer service is becoming the order-winning criteria for most firms and is now being recognized as an important research priority.

The impact of service quality on overall satisfaction and Word of Mouth

Customer satisfaction is defined as "customer fulfillment response", which is referring to customers' post-consumption evaluation on whether the service provided is at satisfying level of consumption-related fulfillment, either under- or over-fulfillment (Oliver, 1997).

Operationally, satisfaction is similar to attitude, as it represents the sum of several attribute satisfaction judgments (Maxham III, 2001). From this perspective, satisfaction is a transaction specific measure (Bitner, 1990; Parasuraman et al., 1988). Others view service-related satisfaction a bit differently. Cronin and Taylor (1992) define satisfaction as a cumulative evaluation, and an outgrowth of service quality. In their view, satisfaction represents a global judgment rather than a transaction-specific measure. Satisfaction is also thought to have an affective element that is experiential, and, probably, is most appropriately assessed after consumption (Ostrom and Iacobucci, 1995).

Our perspective support the great volume of research confirming the fact that service quality is an antecedent of consumer satisfaction (Cronin and Taylor, 1992; Dabholkar et al., 2000).

A further step in our study is to understand the impact of satisfaction on word of mouth. Word-of-mouth is especially important for service providers whose offerings are largely intangible, and experience or credence based. In these services customers rely heavily on the advice and suggestions from others who have experienced the service (Kinard and Capella, 2006).

There is evidence from the literature of the relationship between satisfaction and the desire to recommend (Parasuraman et al. 1988; File et al., 1994; Shemwell, 1998; Söderlund, 1998; Sivadas and Baker-Prewitt, 2000, Hennig-Thurau et al. 2002; Chaniotakis and Lymperopoulos, 2009, Russo and Cardinali, 2012).

In fact, potential consequences on customer behavior from a very high or low satisfaction might be:

- complaining behaviour
- positive/negative Word-of-Mouth.
- repeat purchasing and loyalty (Szymanski and Henard, 2001).

More specific, positive comments from satisfied customers can increase purchases, while negative comments from unsatisfied customers can decrease purchases (Ennew et al., 2000).

Moreover, companies should enhance their customer satisfaction in order to lead customers to repeat their purchases and to positively recommend the products and services to other potential customers. In doing so, these behaviour might benefit both in terms of retention and acquisition (Gremler and Brown, 1996). After sales service offers differentiation potentials that a producer can use to strengthen their brand equity (Cavaliere et al., 2007).

While there are several studies investigating the effect of service quality on satisfaction and the impact of satisfaction on Word of Mouth, there is limited research related on the effect that service quality dimensions have on satisfaction and WOM, at the same moment (Arasli, 2005; Macintosh, 2007; Chaniotakis and Lymperopoulos, 2009; Ferguson et al., 2010; Confente, 2012). Fewer articles refer to the direct relationship between service quality and behavioural intention, such as word of mouth (Zeithmal et al., 1996; Olorunniwo et al., 2006, Ng et al., 2011).

In addition, these previous studies considered whole service provision such as bank service, travel agency experience or healthcare treatments, not the service referred to the aftersales experience, an integrated phase which is subsequent to the purchase of tangible goods.

So there is little research has been done in order to understand if the intangible elements in the after sales offering impact on the customer satisfaction and on customer's willingness to widespread WOM.

2. Research method

Data sample and collection

Data collection focused on after sale service evaluation perceived by customers in the automotive industry. The aim was to explore the importance of each of the intangibles after sales elements, such as the role of which people (personnel), process and physical evidence and their impact, on overall customer satisfaction and word of mouth.

The automotive industry has been selected for different reasons. The complexity for the products in the market has driven final customer searching for advice from trustworthy and reliable sources. Then the automotive market in Europe which has faced crisis in the last decade and the number of cars has dramatically halved (UNRAE, 2013).

The block exemption regulation (BER) inclined European manufacturers to undertake performance improvements. Changes, which manufacturers are confronted with since this regulation came into force in 2003

are: sharply reduced control over their distribution networks, as well as increased competition in the parts and after-sales business.

We chose to investigate the after sales service in one of the biggest authorized car dealer of the North East of Italy, a country where, there is the highest number of cars in terms of density (Autopromotec, 2012). However, due to the crisis, the cars owned by customers become older and older and need further assistance. Under these circumstances, car maintenance services become one effective way for car dealers to increase customer loyalty and revenue beyond car sales. The assistance centres are responsible for repairing and maintaining the product. Several channels can be identified: the ones authorized (through contractual agreements) to sell and repair (dealers), or to repair only (authorized garages), the generic ones (independent garages), the specialized ones (tyres repairers, electrical workshop, etc.), the fast fit (independent or authorized) specialized in handling minor repair works and the soft franchise network (independent, owned by a component supplier or by a distributor). In most cases, only dealers and, to a minor extent, authorized garages bear direct and continuous relationships with the manufacturers (Gaiardelli, P., Saccani, N., & Songini, L. 2007). In our case we collect data from a full authorized after sales service provider, totally integrating with the sales dealer.

Data was collected through an on-site self CASI (*Computer Assisted Self-Interviewing*) survey using the tablet tool. This was useful to collect a real time feedback few minutes after the car assistance service provision.

A pilot survey was administered on a convenience sample of 105 customers.

A ten questions questionnaire was finally structured. Questions were divided into two main sections: section a) demographics characteristics of respondents; section b) after sales service items evaluated adopting 1-10 Likert scale (1=highly dissatisfied to 10=highly satisfied) and two questions about overall satisfaction (1=highly dissatisfied to 10=highly satisfied) and the willingness to recommend the company ((1=highly disagree to 10=highly agree).

The questionnaire was given to a convenience sample of 210 Italian customers. Data collection started in November 2012 and ended in December 2012. Within this time period, the car dealer counted 649 customers receiving an after sale assistance/service. So, the redemption rate is 32.4%. 27.6% of the respondents were females and 72.4% males. The majority of respondents declared to have an age comprised between 35 and 64 years old (77%).

Data analysis

TABLE 1. INTANGIBLE SERVICES IN AFTER SALES EXPERIENCE

Items	Min	Max	Mean	St.dev.
Welcoming	2	10	8.733	1.216
Customer waiting area	2	10	8.676	1.260
Personnel expertise	5	10	8.9	1.074
Personnel courtesy	5	10	9.067	1.083
Contact Service	5	10	8.786	1.189
Documentation quality	3	10	8.790	1.223
Quality versus price	1	10	7.5	1.578
Service lead time	2	10	8.348	1.508
Word of mouth	1	10	8.576	1.453
Overall satisfaction	4	10	8.586	1.204

Respondents were asked to evaluate their satisfaction for following after sales elements.

These might be labeled as physical evidence drivers, such as the customer waiting area (the atmosphere, colors, furniture of the area where customer receive their car assistance and maintenance service), documentation quality (if the documents provided to customer, such as invoice or instruction documents are clear and well written).

Other items related to the after sales service might be related to the process sphere, for instance the welcoming activities, the contact service to require the car assistance, and the service lead time.

Finally the people dimension might play an important role for the perception of a high satisfaction. This is in our case, the role of the personnel expertise and the personnel courtesy which provide added value to the overall offering.

Data was analyzed through descriptive statistics, and a linear regression model exploring the impact of the after sales elements on the overall customer satisfaction and on the word of mouth.

The outcomes of satisfaction and word of mouth were each measured using a single item adapted from Huntley (2006).

The following regression models were elaborated using R software:

$$a) \quad overall\ satisfaction = \beta + \beta_1\ welcoming + \beta_2\ waiting\ area + \beta_3\ expertise + \beta_4\ courtesy + \beta_5\ contact\ service + \beta_6\ documentation + \beta_7\ quality + \beta_8\ service\ lead\ time + \varepsilon$$

(1)

$$b) \quad word\ of\ mouth = \beta + \beta_1\ welcoming + \beta_2\ waiting\ area + \beta_3\ expertise + \beta_4\ courtesy + \beta_5\ contact\ service + \beta_6\ documentation + \beta_7\ quality + \beta_8\ service\ lead\ time + \varepsilon$$

(2)

In order to assess reliability, the Internal Consistencies were assessed. The value of Normalized Cronbach's alpha was of 0.8, in line with the minimum value of 0.7 suggested by Cortina (1993).

3. Findings

All the after sales items were positively perceived and customers were extremely satisfied. In fact all the elements have an average mean above 8, except for quality over price which received an average mean of 7.5 to ten. The item which receive the highest satisfaction is personnel courtesy (M=9.06).

Indeed, the overall satisfaction perceived by customer for the after sales experience is very high (M= 8.586) and the same happens for the willingness to report their experience to other people, as the likelihood to widespread word of mouth is on average 8.576.

The first regression analysis focused on the impact of several after sales intangibles elements on the overall customer satisfaction perception (Table 2). Results show that some of these elements positively affect the evaluation of customer satisfaction.

This is the case of welcoming activities, the personnel courtesy, the quality of the service over its price and the service lead time. It is almost significant the contact service perception ($\beta = 0.095$, $p\text{-value} = 0.071$). These elements belong to the *process* and *people* Ps of service marketing, while the elements belonging to the *physical evidence* of the 3Ps of service marketing (in our case the customer waiting area and the documentation quality), seem not affecting the overall satisfaction.

TABLE 2. REGRESSION ANALYSIS FOR CUSTOMER SATISFACTION

	ESTIMATE	STD. ERROR	T VALUE	PR(> T)
Intercept	-0.278	0.426	-0.653	0.514
Welcoming	0.114	0.054	2.097	0.037*
Customer waiting area	0.070	0.044	1.600	0.111
Personnel expertise	0.032	0.070	0.457	0.648
Personnel courtesy	0.303	0.069	4.371	1.98e-05 ***
Contact Service	0.095	0.052	1.814	0.071 .
Documentation quality	0.015	0.032	0.047	0.743
Quality versus price	0.256	0.033	7.572	1.31e-12 ***
Service lead time	0.157	0.037	4.221	3.69e-05 ***

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
Residual standard error: 0.6383 on 201 degrees of freedom

Multiple R-squared: 0.7297, Adjusted R-squared: 0.7189
 F-statistic: 67.83 on 8 and 201 DF, p-value: < 2.2e-16

Regarding the impact of after sales service on the customer's willingness to recommend the company to other people, the courtesy of personnel positively affects customer' word of mouth (Table 3). In addition the contact service plays a positive role in influencing the willingness to widespread positive word of mouth from customers about their after sales experience. The quality of the service compared to its price and the time of service delivery still represent the most important elements for customers. This is confirmed both for their impact on overall satisfaction and word of mouth.

TABLE 3. REGRESSION ANALYSIS FOR WORD OF MOUTH

	ESTIMATE	STD. ERROR	T VALUE	PR(> T)
Intercept	-0.526	0.654	-0.804	0.422
Welcoming	-0.018	0.083	-0.219	0.827
Customer waiting area	0.048	0.067	0.711	0.477
Personnel expertise	0.108	0.107	1.003	0.317
Personnel courtesy	0.270	0.106	2.541	0.011 *
Contact Service	0.171	0.080	2.119	0.035 *
Documentation quality	0.009	0.072	0.013	0.989
Quality versus price	0.311	0.051	5.998	9.16 e-09 ***
Service lead time	0.188	0.057	3.308	0.001 **

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
 Residual standard error: 0.9789 on 201 degrees of freedom
 Multiple R-squared: 0.5635, Adjusted R-squared: 0.5461
 F-statistic: 32.44 on 8 and 201 DF, p-value: < 2.2e-16

Then, our study confirms the relationship between customer satisfaction and word of mouth. In fact, they are highly and positively correlated ($r= 0.714$) and customer satisfaction impact on the propensity of customer to widespread word of mouth ($\beta= 0.861$, $p\text{-value}= 0.0001$).

4. Conclusion and implication

The automotive industry is one of the most competitive industries in the world, probably one of the most changed industry sector in the last decade. Moreover in Europe, competition is increasing due to market liberalization actions taken by the European Commission and due to globalization and rising customer demands. Automotive companies have a tough time to compete with products only, therefore many firms turn to services as a means to achieve strategic advantages. This trend, known as service infusion into manufacturing, servitization, tertiarization and transition to service-led business can be observed in the automotive industry as well (Godlevskaja, Jos van Iwaarden and Ton van der Wiele, 2011).

Our study contributes to understand the role and the impact of after sales service, based on the service quality perception. In particular we investigated the role of the 3 Ps of service, on overall satisfaction and word of mouth. Results show as the welcoming process, the personnel courtesy and the quality of service (over price and the quality of lead time) represent drivers of the overall satisfaction. On the other hand, customers are willing to recommend the service providers when they are highly satisfied with regards to personnel, contact service, quality versus price and the lead time.

TABLE 4. THE IMPACT OF AFTER SALE EXPERIENCE ON SATISFACTION AND WOM

Welcoming	Customer waiting area	Personnel expertise	Personnel courtesy	Contact Service	Documentation quality	Quality versus price	Service lead time	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	SATISFACTION
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	WORD OF MOUTH

The main limitation of the study is that we focused only on one car dealer of one industry and further research could expand this study in other industries comparing the after sales experience.

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Alternative buying motives represented by an e-trike

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Abstract

Many popular automobile manufacturers have presented prototypes of micro cars in recent years. Although only Renault has launched its Twizy, these prototypes indicate that there is an international demand for compact, economical and ecological vehicles, especially for urban areas. This trend is confirmed by slightly different buying motives but also by the development of the market for e-bikes. E-bikes do not protect against weather and are (usually) considerably slower, but they offer a quite flexible sporting experience and represent a certain type of life-style for many owners or are simply fun. Consumer electronics has also become increasingly responsible for fun in vehicles in recent years. This article should provide insight into alternative buying motives and the enabling features of an e-trike. A market analysis regarding the buying motives is likely to follow by the autumn of this year.

1 Introduction

Mobility behaviour is currently being investigated in several EU-projects respectively EU-studies (eg. USEmobility). However, differentiated results exist only on a regional basis. According to a study by the Verkehrsclub Deutschland in 2007, for instance, trips by car accounted for 61% of all trips made in Germany. The average car-trip consists of 1,5 persons, 70 % of journeys are carried out for commuting purposes, 60 % for shopping-trips and 54 % for leisure-trips. Thereby half of the distances are shorter than six km, some even shorter than one km. **Errore. L'origine riferimento non è stata trovata.** Studies with similar results also exist eg. for Austria and the United Kingdom. Although mobility behaviour has changed in favour of public transport systems, bicycle etc., individual car-traffic will persist on a high level in the future due to lack of public transport systems and the demand for flexible departure times etc. Thus problems such as traffic congestion, shortage of parking places etc. in urban areas will persist too.

As to climate change in the EU, road transport is responsible for about 20% of carbon dioxide (CO₂) emissions, with CO₂ being the main greenhouse gas. **Errore. L'origine riferimento non è stata trovata.** Car-traffic causes 12 % of all CO₂-emissions in the EU [5]. Regarding the overall-CO₂-balance of a car, about a third of additional CO₂-emissions result from fuel production and the production and recycling of the car itself. Thus the car is regarded per transported person as the most polluting means of transport besides airplanes which indicates its significant impact on climate change. **Errore. L'origine riferimento non è stata trovata.** In addition to greenhouse gas noise is also a problem caused by traffic in European states. 80 % of persons suffering from noise-related problems owe these to traffic. Long-term stress through noise has a health impact. In Austria 2 % of myocardial infarction can be ascribed to noise, for instance. **Errore. L'origine riferimento non è stata trovata.**

“Lack of adequate physical activity is estimated to be associated with about 900.000 deaths per year in the European Region, where about 20–30% of adults are estimated to be obese.” **Errore. L'origine riferimento non è stata trovata.** A positive impact of walking and cycling on mortality and especially on morbidity is not evident in general. Walking and cycling over a certain scale of intensity leads to health benefits. After ten minutes of sports daily a sports-beginner can achieve significant health impacts [3]. Regular physical activity leads to muscle adaptations and increased metabolism simultaneously. The strongest impact of physical activity is likely to be the prevention of heart and circulatory system diseases. **Errore. L'origine riferimento non è stata trovata.** Moreover it is evident that physical activity leads to reduced risk of cancer, especially of colon cancer and breast cancer. **Errore. L'origine riferimento non è stata trovata.** and further diseases. Finally sport also has beneficial effects on mental health (including anxiety and depression) and improving functional health in elderly people.

A partial solution approach for the problems mentioned are of course pedelecs. Pedelecs are a sub-category of e-bikes namely cycles with pedal assistance which are equipped with an auxiliary electric motor

having a maximum continuous rated power of 0.25 kW, of which the output is progressively reduced and finally cut off as the vehicle reaches a speed of 25 km/h, or sooner, if the cyclist stops pedalling...” and thus legal bicycles [14]. Sales of e-bikes (almost only pedelecs) in Europe increased almost fivefold from 300.000 in 2008 to 1.483.000 in 2012 and are expected to increase further to 2.318.000 in 2015 according to experts.

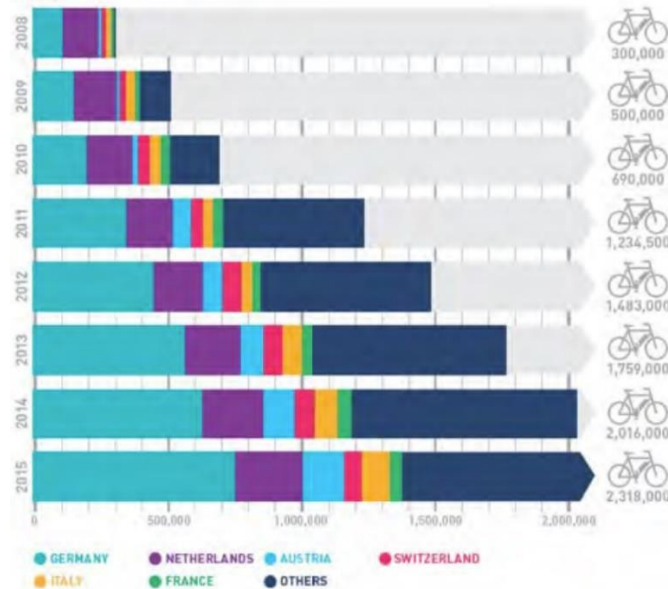


FIG. 1 Sales of e-bikes in Europe from 2008 - 2015 (estimated from 2013 - 2015)

Sales of e-bikes increased in Austria from 2008 to 2012 too and are expected to increase further until 2015 as also illustrated in FIG. 1. Sales of e-bikes in Germany are growing at a relatively slower rate but in bigger volumes. **Errore. L'origine riferimento non è stata trovata.** These figures are also confirmed by Electric Bike Worldwide Reports, which also forecast sales exceeding 40 million e-bikes worldwide per year [10].

The impressive impact on mobility behaviour of pedelecs on distances up to 10 km in urban areas could probably be the impact on mobility behaviour of the e-trike on distances up to 20 km or maybe more in suburbs and also in bad weather.

2 Methodology

As an introduction, mobility behaviour and problems caused by car traffic as well as the lack of adequate physical activities are discussed, pedelecs are identified as a partial solution for these problems and e-trikes are mentioned as a potential further solution to the problems addressed. All aspects addressed in this article refer to Europe, especially to Austria and Germany (as a result of the authors' origin), which does not imply a different situation but also does not serve as evidence for an analogue situation in the rest of the world. Subsequently, the concept of an e-trike is presented. The potential of this e-trike is then deduced from its features and according literature. As a result, this potential is compared with correspondent buying motives envisioning a promising market for the e-trike respectively the potential engineering of the e-trike.

3 The e-trike

The E-Trike described in the following article is a concept that will possibly be part of a research project conducted by the authors. The structural framework of the vehicle consists of a tubular steel frame which bears the drive, the vehicle body and the payload. The vehicle body is constructed of lightweight composite plastic with integrated flexible photovoltaic (PV) modules. It protects the passengers/occupants and cargo from wind and weather and also significantly improves the aerodynamic characteristics of the vehicle. The aerodynamic drag of the vehicle can be reduced by a factor of three just by using the appropriate vehicle body. The goal is a vehicle that weighs less than 50 kg with a vehicle height of about 1400 mm and a length of approximately 2400 mm. The two front wheels are spaced at a distance of 800 to 900 mm from each other. They are connected to the frame via a complex mounting assembly in the shape of a parallelogram, which is designed to enable steering capability and also makes a cornering tilt of about 40 degrees possible. This provides great stability despite a high center of gravity. The two front wheels offer better traction and a shorter stopping distance than that of a two-wheeler. This makes using the E-Trike perfectly possible, even in poor weather conditions. A single rear wheel powers the drive. FIG. 2 shows a freehand sketch of the E-Trike (inspired by the NoVelo project [6]), shown without doors and not claiming to be the actual completed design. It is only supposed to display the outline of a high structure and longer E-Trike design with an aerodynamic enclosure.

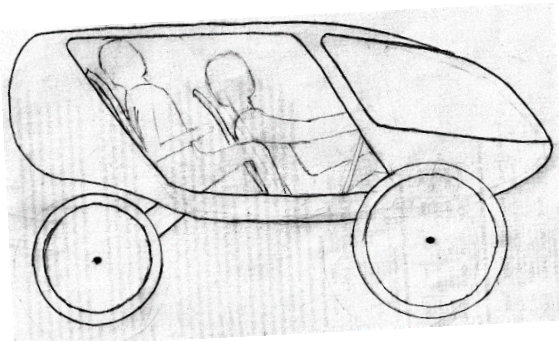


FIG. 2 Freihand-Skizze des E-Trikes, source: Own representation

The hybrid drive concept presented here combines human muscle strength with an approximately 1 kW synchronous reluctance electric motor as the prime mover. A mechanism consisting of cranks, shafts, transmissions, clutches and brakes translates the transmitted movement, created with muscle power via adjustable pedal cranks and arm levers (see recumbent elliptical) as well as the high-frequency rotation of the electric motor into the rotation needed by the drive wheel. Apart from the nutritional input for the driver, a combination of electromechanical energy storage, mechanical energy storage and a PV module is used here for power. The effective range of the E-Trike can be extended by up to 50% and even more, adding to the power created by pedaling and levers in the following ways, depending on the driving situation (city, sunlight, etc.). Energy can be recovered during braking and the power transferred to a flywheel (rather than using the electric motor as a regenerative brake and generator for electro-chemical power storage), and available solar power may be utilized as well.

The display of technical data like speed, battery status, etc., as well as vital data like pulse, are intended to utilize smartphones and their respective standardized interface with the e-trike, as well as a wriststrap heart monitor and the apps designed to communicate with them. This will make default apps, like navigation or similar, available for the e-trike. A training app is to be designed specifically for the e-trike. This will control the appropriate e-motor support for the foot pedal or even the arm levers, based on the selected training program, as well as the respective riding situation (also controlled via the e-trike interface). Furthermore, speakers will be integrated into the e-trike, providing adequate sound for audio entertainment, communication, etc.; they will also be controlled from the smartphone with the corresponding apps. The displayed data can be recorded on the smartphone of course, or with an adequate Internet connection in a cloud application, so that it may be evaluated

again using the appropriate training program app. The training program can then be adjusted and the recorded data can be published on the Internet or in an environment like Facebook.

4 Potential

The e-trike can be a real bonus on one level as a solution to the above-mentioned societal problems. On another level it has real, specific potential to benefit the owner on a day-to-day basis with costs, as well as physical fitness and emotional potentials.

4.1 Everyday life

The targeted average speed of 45 km/h allows the e-trike to "float along" in city traffic. Due to its narrow width, the E-Trike can be flexible in city traffic like a motorcycle and, because of its high structure, the e-trike is less likely to be overlooked than conventional enclosed recumbent bikes (velomobiles). Private automobile parking lots (apartments, businesses, etc.) can accommodate up to 4 E-Trikes in one space. Short-term parking spaces may tolerate them even without a parking ticket, because of their motorcycle-like dimensions and because they are legally still uncategorized. Laws governing motorcycle helmet use should not apply to the driver or passenger in almost all EU countries (see BMW C1) because of the roll bars and safety belts. The enclosure also offers weather protection and, compared to a bicycle or a motorcycle, much lower weather dependency, and may provide a certain buffer for at least some accidents. Another advantage of the E-Trike is the recumbent position of the driver, as the head is affected much later in case of a frontal impact with an obstacle. In addition, the driver should not fall off the bike in case of a minor accident **Errore. L'origine riferimento non è stata trovata..** The integration with smartphones also makes various driver assistance features possible, i.e. navigation.

The comfort of riding the e-trike can be significantly increased by incorporating the e-motor, as a high support setting will allow traveling without excessive effort or working up a sweat. This turns it into the perfect commuter vehicle. You can ride to work in the mornings with high motor support (and without breaking into a sweat), and then in the evening, on the way back home you could set the motor support to low and use increased muscle effort to complete a workout program. The rechargeable battery packs, in combination with leg and arm movement drives, the flywheel and the PV modules, facilitate a considerable travel range. The flip-up passenger seat, as well as the multi-track design, make transporting another person an option, or allow you to take more cargo than you could on a motorcycle, all while maintaining good maneuverability. That extends the scope of the e-Trike dramatically and makes it a real competitor to the second car – or in some cases even the main car.

4.2 Cost

The e-trike shows exceptional operating cost figures concerning energy consumption due to its good aerodynamics, low weight, and also because of the low maintenance demands and tax breaks **Errore. L'origine riferimento non è stata trovata..** Furthermore, there are a number of notable subsidies available for electric vehicles, for their operation, as well as for their purchase **Errore. L'origine riferimento non è stata trovata..** As a rule you should be able to claim travel costs when using the E-Trike for business-related travel **Errore. L'origine riferimento non è stata trovata..** Since up to four E-Trikes can share one parking space, you might be able to take advantage of significant savings potential here as well. There are however no significant advantages for the electric motor with regard to insurance **Errore. L'origine riferimento non è stata trovata..**

However producing the E-Trike for a purchase price of €10.000,- is a challenge with low production volumes (which would always be the case in the beginning). And at first sight a purchase price of €10,000.- for an E-Trike is probably not very reasonable for an average earner. The rechargeable battery pack is of course a major factor in the cost. Leased battery packs may first appear a "pricing gimmick", but since they display a higher degree of reliability (over purchased battery packs) because of the leasing contract, they may actually constitute a real cost saving in the long run. Leased rechargeable battery packs also prove to be more environmentally friendly, as they will be disposed of properly by the leasing company at the end of their life **Errore. L'origine riferimento non è stata trovata..**

The low wear on an e-vehicle should also lead to a relatively high resale value, as one can see from certain Internet exchanges. This limits depreciation significantly, or at least puts the somewhat high purchase price into perspective **Errore. L'origine riferimento non è stata trovata.** Lower operating costs offset the higher acquisition costs to some degree, but amortization depends of course on the frequency of use or the distances traveled. Based on the factors of relatively high possible speeds, weather resistance, and low wear and tear under normal transportation conditions (see chapter 0), the e-trike's travel performance may actually come close to that of some cars, and its amortization should come out quite favorably compared to that of significantly more expensive electric cars. Let us assume the E-Trike uses 1.5 kWh/100 km (see Alleweder 4 T45), and at an electricity price of €0.25/kWh this is €0.38/100 km compared with the consumption by a compact car of 5 l diesel/100 km. That is €7.-/100 km with a diesel price of €1.4/l [15], **Errore. L'origine riferimento non è stata trovata.** Furthermore, do not forget that you are purchasing an effective and enjoyable item of training equipment with the e-Trike (see chapters 4.3 and 4.4), which creates another significant reduction in the acquisition cost when compared to a fitness studio membership and the time required to actually use it.

Another increasingly popular aspect, especially for urban areas, is the concept of sharing the vehicle or parking spaces and thereby sharing more than just the acquisition costs. In the public sector, private motor vehicles take up parking spaces an average of 23 hours per day without ever being used **Errore. L'origine riferimento non è stata trovata.** The e-trike would not even have to be shared: one could occasionally share a car in addition to the e-trike (whereby that would be by definition more renting). The e-trike enclosure can be used for advertising space. The advantage of publicity on vehicles is that it is cost-effective and mobile in comparison to other forms of advertisement; it allows you to reach a wide range of customers **Errore. L'origine riferimento non è stata trovata.** Depending on the size of the advertising and the client, earnings can be between €5 and €300 per month [8]. The innovative appearance of the E-Trike may be of special interest to certain advertising clients.

The actual costs and realized savings potentials resulting for the e-trike will probably depend on the respective owner and / or applications. The author therefore refrains from making any specific cost calculations and limits himself to listing the various cost criteria. At all events, savings of € 1.000,- per year including depreciation compared with a compact car should be easily realizable, and if this car is only used to transport the driver and his baggage or a passenger every once in a while, the comparison is perfectly appropriate.

4.3 Fitness

When looking at the mobility behavior discussed in chapter 1 many trips made by car could also be made by bicycle or pedelec and even more using the e-trike. Thus, using the e-trike for the daily commute or a leisure activity can also have a health impact. Commuting by the e-trike even enables physical training without extra time. Despite this the e-trike could also be an access to sport for non-sporty persons (instead of membership at a fitness studio) because driving it is simply fun **Errore. L'origine riferimento non è stata trovata.** (see chapter 4.4).

Operating it with pedals or arm cranks uses up to 85% of the entire human muscle structure. However, when using it for training, focusing on the completion of a single session is not that important for the user. Training is always a matter of control and feedback over an extended period of time, based on regular physical activity and requiring the documentation of performance levels in order to be able to structure future continuative sessions (optimally). The (partly automatic) creation of a software-supported training program makes sense in this context **Errore. L'origine riferimento non è stata trovata., Errore. L'origine riferimento non è stata trovata.** In addition, regular use for everyday benefit is conducive here.

Suitable training is made possible for almost every endurance fitness goal because of the motorized support. You can add a higher level of electric motor support for the untrained beginner to reach but not exceed the optimum heart rate **Errore. L'origine riferimento non è stata trovata.** As a logical consequence, motorized support can be decreased for a more ambitious fitness training program and increased physical effort **Errore. L'origine riferimento non è stata trovata.**

You are able to structure more than just extensive training. Using the E-Trike in your free time and less as a commuting vehicle makes an optimum or focused training session possible, since the required units for an optimized training session can be integrated into your daily routine easier. So in terms of using the e-trike as training equipment, its application to explosive strength endurance training sessions or even interval training are all possibilities [4].

The arm levers make it possible to use it even under adverse conditions, e.g. when not being able to use the leg muscles any more. Even using only the arm-propelled drive, the goal as laid out in the training manual can be achieved, since the muscles used are sufficient to produce the desired effect. An additional bonus of the e-trike enclosure is privacy protection for persons who, for whatever reason, do not feel at ease working out in public **Errore. L'origine riferimento non è stata trovata.** [7].

4.4 The Emotional Potential

Products and services with emotional appeal can be sold more easily and for more money than those offering no or very little appeal, even if they do not meet a rational need of the customer, or do not meet it better than another (see "the sex appeal of the car"). This effect becomes stronger, the more emotions the product or service is able to awaken, whereby this effect of course depends on the specific emotional system addressed by the respective product or service. [Häusel 2013] distinguishes between the emotional systems of balance, dominance, stimulation, attachment/care-taking and sexuality. In particular with the sexuality system (with attractiveness) one encounters an important aspect, namely that products and services are not just bought for their direct emotional benefit, but rather to show or prove something to others. It is especially this second motivation, the desire for status and individuality, that often makes products particularly attractive and therefore expensive. The desire for status and individuality, in addition to the sexuality system, can be traced back to the dominance and stimulation system. The e-trike could address all of these emotional systems to a greater or lesser degree; balance as a health product, stimulation as a product for enjoyment, dominance as sports equipment, attachment / care-taking as a sustainable means of transportation, as well as sexuality, because it will get you noticed, give you fitness and an attractive body, so catering for those emotional systems sufficiently as well. The dominance system is possibly better served with a mighty SUV or something similar rather than sports equipment, but with the right kind of advertising and the higher-than-expected price for a vehicle the size of an E-Trike could possibly still be considered stimulation for that drive as well. Although the E-Trike may of course affect the emotional systems of individuals in different ways, emotional potential does play a central role with the e-trike **Errore. L'origine riferimento non è stata trovata.**

One can make a "socially responsible contribution" by using the e-trike. On the one hand, by relieving transport systems and the environment (as an alternative to the car) – see chapter 1 – and on the other hand, by setting an example for responsible consumer behavior, both of which contribute in no small way to motivating businesses to market traffic-friendly and environmentally compatible vehicles [1], **Errore. L'origine riferimento non è stata trovata.**

One can also earn recognition by making this contribution to society. Tesla drivers (the icon for electric cars) report for instance that passers-by often give them the thumbs-up to show their appreciation **Errore. L'origine riferimento non è stata trovata.** Once the e-trike demonstrates that it is designed for sustainability and is not an obstacle in traffic, it will probably gain similar recognition, albeit to a slightly lesser extent. With the option of publishing road trips (see chapter 0) on Facebook or on the Web, recognition might be gained by explicitly promoting performance. Based on the current popularity of sustainability and healthy lifestyles (note the frequent and definite discrepancy between awareness and actual deeds and purchasing decisions), the mere possession of an e-trike (independently of whether one owns it or rents it), even without actually using it, can bring the desired recognition [2]. The e-trike can therefore be seen as a status symbol, whereby we need to clarify that the term "status symbol" is not used in its narrower sense of a prestige object or understood as the expression of a higher status **Errore. L'origine riferimento non è stata trovata.** "Status symbol" should be understood here more as a symbol for a certain lifestyle or as identification with a peer group **Errore. L'origine riferimento non è stata trovata.** Because of its modern components and its novelty value, the e-trike also represents innovation, for example enabling companies positioned as innovators to use it as a model for projecting this image, and individuality, an important buying motive as mentioned above. Design is very important for identification with a product, and even more so for a status symbol. The frame, the modern components and the enclosure of the e-trike all add up to an impressive design, or as discussed above, even help make it an authentic status design symbol internally as well as externally **Errore. L'origine riferimento non è stata trovata.**

Furthermore, the stimulation system can be activated through acceleration, speed, the tilt mechanism and the integrated smartphone or the relevant apps, as well as through the physical activity itself (see chapter 4.3). Because of the relatively high torque compared to combustion engines (especially when pulling away

(from a light)) the acceleration of "only" one kW delivered by the electrical motor is clearly noticeable. And the speed, which is low compared to a car but nevertheless clearly perceptible, may be really enjoyable in urban traffic. This increases with the tilt mechanics, so allowing the driver to experience this key thrill otherwise reserved for motorcycles. The e-trike follows the infotainment trend with its own smartphone integration and the respective apps (see chapter 5) and is able to meet these entertainment needs. Last, but not least, the E-Trike thus satisfies the enjoyment potential, something that would be a purchasing reason in itself.

5 Alternative buying motives

The problems discussed in chapter 1 are not new and have still not been solved for cultural reasons. Authorities and non-governmental organizations support alternative transport modalities and mobility behaviour with diverse measures such as tax relief, research funding, information campaigns etc. **Errore. L'origine riferimento non è stata trovata.** The impact is still low, but some kind of cultural change is predictable. The car is still more than a means of transport nowadays, it is a symbol of freedom, power etc. But it is also losing in terms of its purpose due to traffic congestion, shortage of parking places etc. in urban areas, it is also an increasing financial burden, there are also environmental concerns and young people are no longer so interested in the symbol **Errore. L'origine riferimento non è stata trovata.** Young people tend not to be fascinated by car technology, use electronic media to cover distances, favour public transport in urban areas, have more ecological awareness, extend their adolescent moratorium and have little money **Errore. L'origine riferimento non è stata trovata.**

In most Western countries ethical consumerism is at an all-time high. The green movement has infiltrated all aspects of consumers' lives, from the need to conserve energy and reduce fuel bills, to the way people eat and drink, as well as what they wear and how they travel. "[11] According to a study by [Fraunhofer ISI 2012], which is also confirmed by several similar international studies, potential buyers of E-vehicles in Germany are:

- > predominantly men in their forties,
- > living in multi-person households with children and multiple cars.
- > people with higher wages
- > more likely to live in rural areas
- > have a high technical affinity and often a technical profession
- > less influenced in their buying decisions by economical factors, instead driving pleasure, environment
- > protection and individuality are more important for e-vehicles
- > reluctant to spend more money on an e-vehicle compared with a conventional vehicle. In the case of an e-vehicle range and operation costs are crucial restrictions

This group of potential buyers is expected to account for 1,5 % of buyers of new cars from 2015 to 2020 in Germany. Potential further early adopters (lower evidence) are increasingly women, young and older or retired people with higher income levels whose concerns are predominantly environmental. The employed persons of this group accept higher purchase prices due to their augmented driving performance or their tendency to drive more in urban areas.

However, there are some prerequisites to be fulfilled to reach both mentioned groups, especially:

- > wider choice of E-vehicle solids with established quality and comfort
- > more plug-in hybrid electric vehicles available on the market
- > considerable decrease of purchase prices
- > alternative mobility concepts

Smaller batteries provide an effective way of meeting these needs since batteries are expensive on the one hand and polluting on the other. This complies with the usage of e-vehicles for low range trips and/or in urban areas which in turn will generate a need for new vehicle approaches like micro cars, mobility concepts and business plans like vehicle-sharing **Errore. L'origine riferimento non è stata trovata.** Many popular automobile manufacturers have already responded to these requirements and have presented prototypes of micro cars in recent years. However, it seems they are finding it difficult to meet the above mentioned requirements as only Renault has launched its Twizy.

The market outlook for car-sharing is enormous as a study by Frost & Sullivan in 2012 shows. The number of car-sharing customers in Europe is expected to increase from 700.000 in 2011 to almost 15 million in 2020 and the number of cars is expected to increase more than tenfold to 240.000, e-cars included. Car-sharing

is already offered in different variations such as systems with defined car-stations, the one way model etc. providing support for drivers mobility demands or complementing public transport systems **Errore. L'origine riferimento non è stata trovata.** A significant increase in market growth of bike rental systems in Europe (from 70 to almost 400) has also been identified since 2006 **Errore. L'origine riferimento non è stata trovata.** Besides an alternative mobility concept vehicle-sharing also implies potential business customers for the e- trike, the vehicle sharing provider. Vehicle-sharing providers are likely to have another perspective on the relatively high purchase price of the e- trike compared with private customers.

Besides the automotive industry the sport and leisure industry is also addressing these requirements not only with pedelecs. In 2012 BTwin, the world leader in the cycling market with more than 2.7 million bikes sold internationally, called upon the creativity of The Forge's online community of designers and fabricators to suggest trike concepts that had to satisfy requirements which are clearly oriented towards urban commuters including dual urban/outskirts modes, electric assist, theft protection and a target retail price of only \$ 2000. The chance to win a total of \$ 15.000 of prizes resulted in 114 delivered, ambitious and interesting designs **Errore. L'origine riferimento non è stata trovata.** Irrespective of whether BTwin launches an accordant vehicle in the future or not, this challenge also confirms the market demand for such vehicles from a sport and leisure perspective.

According to the Eurobarometer Sport and Physical Activity survey 2012, 59 % of Europeans never exercise or play sport, a figure which is identified as “alarmingly high”. The inactivity rate increases with age and results in 70 % for people over the age of 55. In addition, there is a strong link between education, profession and physical activity. People with a higher education and without financial problems tend to be more active. Besides age and socio-professional categories, countries constitute a variation for this rate, countries of Central and especially of Northern Europe being significantly more active than the remainder. A shortage of time is by far the main reason given for not practising sport more regularly (42%). Other factors mentioned are a lack of motivation or interest (20%), having a disability or illness (13%) or that it is too expensive (10%)[12]. However „fitness penetration in European countries increases, resulting in a total of 46 million members in health and fitness clubs. ... There are three major drivers for the growth in number of customers in European fitness clubs: The fundamental trend of increasing health awareness, the diversification of the industry in more mature markets and the recognition of fitness as part of people's lifestyle in younger fitness markets.“ In addition people over the age of 60 are seen as ‘time-rich and cash rich’ and thus of high importance for the sport and leisure industry [13]. Despite the supposed contrast between the poor motivation for physical activity of Europeans and the fitness penetration in European countries, there seems to be a market potential for the e-trike but potential customers have to be addressed specifically regarding their socio-professional background.

According to [Häusel 2013] 70 – 80 % of buying decisions are generated by emotions. This indicates a disadvantage of the e-trike, because it is quite rarely and nobody is used to it (compare diffusion of innovation). However the e-trike can also be a symbol for a lifestyle, individuality or the identification with a peer-group as indicated at the beginning of this chapter. As the peer-group of potential e-vehicle buyers as well as the peer-group of fitness oriented people are likely to be elitist to some extent and people are prepared to pay high prices for status, people of these (quite similar) peer-groups or people wanting to be admitted to these peer-groups are probably willing to pay a high price for the e-trike **Errore. L'origine riferimento non è stata trovata.** Design is, of course, another reason for buying a vehicle or paying a high price for many people **Errore. L'origine riferimento non è stata trovata.**

Fun or experience in general is another emotional buying motive of central relevance nowadays. The e-trike can only offer unspectacular entertainment concerning the driving experience **Errore. L'origine riferimento non è stata trovata.** Another probably even more appealing fun factor than driving experience nowadays is consumer information technology (it). Consumer it is seamlessly integrated into our day-to-day lives, so that users do not want to do without it even in their cars – and are willing to pay for it as well. The important trend for in-vehicle electronics is currently connecting to the mobile internet. Now end users have become used to their devices (especially smartphones), and the infotainment systems integral to cars are not always very intuitive [9]. Due to the mobile internet connection via vehicle-integrated smartphone, the e-trike can offer a cost saving infotainment experience on a high level.

6 Conclusion

Alternative buying motives as well as alternative market settings such as ethical consumerism, vehicle-sharing, fitness and consumer information technology are currently very trendy and thus profitable. The e-trike is likely to address these and also conventional buying motives for vehicles as well as for sports equipment like the everyday applicability, efficiency, status-symbol and individuality. In addition, the features of the e-trike in a certain sense work together synergistically. People can eg. commute by the e-trike in a comfortable way due to the enclosure, the support by the electric motor and the infotainment system and parallelly use the opportunity to make sport coached by a training app without investing extra time. This could also be a use-case to motivate people to do sport on a regular basis. The high purchase price compared to e-bikes may thus be a solvable problem too.

Besides these individual buying motives it also has potential to alleviate common problems such as road congestion, shortage of parking-places, environmental pollution and lack of adequate physical activity respectively public health care expenditure. This makes the e-trike concept attractive for public funding. As a funding application demands information about inland and international target markets, market potential and market competition, an adequate market analysis would therefore be necessary. Furthermore, a company partner is required for such research funding and also for the market analysis **Errore. L'origine riferimento non è stata trovata.** If a research consortium can be set up and a profitable market is considerable, the authors are likely to apply for research funding for the e-trike.

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Creating a new distribution network through the hypermarket experience: The DR Motor case study

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LONG ABSTRACT

This article analyzes the development and change of a distribution network – a central feature of distribution issues – by means of an automotive industry case study. The analysis focuses on the distribution network of a small Italian industrial company, Dr Motor Company (Dr Motor), and on the interaction between the firms involved in its network. Dr Motor was founded in 2004 and first produced a prototype of the DR5 – a sport utility vehicle (SUV) – which was developed throughout 2005. At the end of 2007 the vehicle entered production, with sales commencing in December 2007.

In the first stage, the DR5 was distributed through a business relationship with the Finiper group (a hypermarket organization). Dr Motor subsequently shifted to new, multibrand distributors (stage two). Besides Dr Motor, different participants or agents are involved, such as transportation companies, repair shops, and the multibrand hypermarket dealers. This transition from one form of distribution to a much more structured one is significant in terms of involved resources.

This study will relate the key aspects of a ‘new’ distribution network evolving into a different structure, as Dr Motor has engaged and mobilized a network of participants to organize its DR5 distribution structure, thus involving and combining several technical and organizational resources. It is therefore also interesting to investigate the interactions between the participants in the distribution network, including their conflicts.

We adopt an industrial network perspective to investigate these issues from a theoretical perspective (Håkansson and Snehota, 1995). The industrial network approach may provide a holistic understanding of distribution (Gadde and Ford, 2008); this means not only focusing on the exchanges between the firms, but on their interaction processes.

Summarizing the evidence from this case, we argue that the development of and change to the distribution network comprised more interaction between the participants than the use of external and internal resources.

Another aspect that emerged from the case study is that Dr Motor has managed both cooperative and conflict relationships. We have moreover seen that there have been several adaptations by each of participants in the network.

Finally, a conclusion that has emerged from the case is that it is important to ensure that in two heterogeneous but linked distribution networks, the distribution functions are split between the participants in the network. The process that led to the second step of the distribution network clearly shows that through increased coordination, communication, sharing of tasks, and the sharing of resources between the participants in the network, conflicts have also decreased.

This paper contributes to the industrial marketing field in two ways: firstly, it studies the issue of distribution by using the network approach from a small business perspective; secondly, we provide a unique case study within the automotive industry

Sales Concept for the Automotive Supplier Industry in Russia and China

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Abstract

On the first sight, Russia as well as China seem to be very interesting countries for the Austrian automotive supplier industry. But entering a new market is on one hand very costly and on the other hand extremely risky. Therefore, it is rather difficult for an automotive supplier to decide whether or not to enter the Russian or the Chinese market. Due to the geographical and cultural closeness, some companies consider Russia to be the better choice. Nonetheless, Russia has tremendous barriers like corruption and specific business modes. Based on various interviews with a broad range of experts from the automotive sector, this paper shall provide valuable input for companies which are confronted with the difficult question whether and how to enter the Russian or Chinese market.

Introduction

Globalization is a current and heavily discussed phenomenon that cannot be denied nor neglected. Especially, traditional industries like the automotive industry have to find their places within the bustling economic system. The automotive supplier industry has a major global impact, but it does not only consist of famous car brands. The real value must be attributed to the suppliers that are attached to the worldwide car makers. Both – the car industry itself and its suppliers – underlie frequent changes and dynamics as they are directly related to economic up- and downswings. Globalization offers even smaller and medium sized companies a huge choice of potential markets where they could participate. Due to this fact more and more car makers are acting worldwide and suppliers, which are closely bound to the car makers, feel an even stronger pressure to act globally and invest into foreign markets. Therefore, it might be interesting to compare and contrast two countries among these bustling economies – Russia and China – in order to find out which one of the two provides more attractiveness for Austrian-based automotive suppliers. Therefore, the following main research question was formulated: **Considering the market approach of globalization, which country is more interesting for European based automotive suppliers – Russia or China?** Even if Austria is a relatively small country, the automotive and automotive supplier industry is of global importance owing to the fact that more than 230 companies operate in this branch (Power Point presentation of the Automotive Cluster, Austrian Chamber of Commerce, 2000). As a consequence, this paper also focuses on suitable sales modes within the Russian and the Chinese market. The research to answer the research question includes various expert respondents from different companies in the automotive supplier industry. Consequently, the results are not representative for the entire branch, but could give indications.

Global development of the automotive industry

An observable phenomenon is called the caravan effect where a “follow the customer” approach can be seen. Many suppliers try to follow their customers as quickly as possible. Therefore, suppliers have two major decision criteria for expanding. Firstly, they follow their customers to new markets and secondly, they try to find locations which reduce their cost structures (Telephone Interview with Ms. Liane Gnegeler, Geba Kunststofftechnik GmbH & Co. KG, CEO, 02/11/2008). Consequently, it is essential to distinguish between promising locations of production and locations of sales (Personal Interview with Mr. Kero Franz, Business Development/Market Research & Planning, Magna International Europe AG, Oberwaltersdorf, 25/10/2008). The difference can be explained by the following model that defines four ways for automotive suppliers in the matrix of production versus market focus: **Global market developers** are companies that target global presence which should be realized by a localization strategy (Kasperk, Woywode and Kalmbach, 2006). The **global footprint champion** disperses the production as well as sales activities to different places in order to optimize the value chain. The **home location value adder** tries to transfer only simple production steps mainly to low-cost countries in order to save costs (Kasperk, Woywode and Kalmbach, 2006). The **regional cost reducer** focuses on the export of products, which are solely produced at the home location. This centralization leads to economies of scale and therefore cost reduction as the fixed costs can be exploited

more efficiently. The appropriate market entry modes would be export and licensing (Kasperk, Woywode and Kalmbach, 2006).

Sales Concept for the automotive supplier industry in Russia & China

In general, the sales concept is based on the overall strategy of a company. It is important to ask three major questions: Where to enter? When to enter? How to enter? (Kasperk, Woywode and Kalmbach, 2006; Wallentowitz, Freialdenhoven and Olschewski, 2008)

Where to enter

This question refers to the potential areas. A company should consider the STEP-model which concludes the following dimensions: social, technological, economic and political factors giving information about essential issues. Cost/tax factors, wage rate, availability and cost of land, construction costs, costs of raw materials and resources, financing costs, investment incentives, demand factors, local competition, related industries, inbound and outbound logistics, regulatory economic factors and sociopolitical factors (Luo, 2000). A detailed analysis of potential hot spots is not conducted hereunder, but a brief outlook is given as follows.

Russia

Russia is still dominated by three influencing forces: Its history (“*traumatic past*”), geography (“*size matters and the natural resource curse*”) and the national psyche (“*kleptomania*”) (Ledeneva, 2006). Russia’s major problems are the dependency on oil as well as the dominance of huge companies which restrict the development of smaller and medium-sized companies. Russia is still suffering from the so-called Dutch–disease. Russia is still in its development, but labor costs are not that attractive anymore to consider Russia from a production focused point of view (Telephone Interview with Mr. Fuss, Ernst & Young Central Europe, Automotive, 24/10/2008). The problem is, that there is a lack of highly qualified labor especially in the main areas with simultaneously increasing wages and salaries (<http://www.laender-analysen.de/russland>, accessed at 20/11/2008). Moreover, prices for energy and living costs are also on the rise and close to equalization with European standards (Hill, 2009). Russia endows many obstacles for interested investors like high bureaucratic burdens which seem to make a Russian business partner indispensable. In addition, greenfield investments may take a long time as even basic components like water, electricity or gas need special permission (Telephone Interview with Mr. Fuss, Ernst & Young Central Europe, Automotive, 24/10/2008). Only a local partner has the necessary knowledge about locations and influential people. Especially, as the local content requirements are only reduced for the first five years of local production. As a consequence, the local producer status plays a major role in Russia (Telephone Interview with Mr. Ivan Bonchev, Ernst & Young Russia, Moscow, 29/10/2008). Disturbing signs of unrest and political totalitarianism have been observed in the last years, especially under the regime of Vladimir Putin. He gave a clear sign of shifting back towards an increased governmental influence in economic activities (Hill, 2009). Due diligence and a careful examination of potential business partners is essential, as another major aspect is corruption (Telephone Interview with Mr. Ivan Bonchev, Ernst & Young Russia, Moscow, 29/10/2008). In another personal interview (25/10/2008), Mr. Udl from Eurofoam responded that “*Russia's biggest problem is still bribery. Therefore, it is essential to find a local partner who appreciates similar corporate values. If the economy grows, corruption grows first*” and in Russia, corruption is still playing a big role (Jansson and Elgar, 2007).

Russia is known as a country which possesses own crude oil and plenty of other resources; nonetheless suppliers like Magna explored the fact that the basic resources for components are equally expensive as in Europe if they have to be provided in the right quality. In Russia they are even more expensive due to exaggerated effort concerning transportation like roads in worse condition and missing railway connections (Pope, 2008). As a result, Magna receives its basic supplies from other Eastern European countries. Due to the fact that Russia is still involved in political turbulences and even wars, it cannot be perceived as a stable country. Therefore, companies are careful with long-term investments in production and may regard Russia more as a sales market (Personal interview with Mr. Adam Zhang, Magna International, Shanghai, China, 08/12/08).

Nonetheless, “*Russia is no exception to the general rule that in emerging markets, every one per cent increase in gross domestic product results in at least a two per cent hike in car sales.*” (w/o author, Auto

Industry in Russia, Article in European Bank for reconstruction and development (EBRD), bit.ly/1m6oTlk). Considering the sales figures, Russia is the third biggest automotive market in Europe after Germany and Great Britain. Worldwide, it is on the eight rank. Therefore, all major OEMs plan to be in the market with full capacity up to 2015 (<http://www.aktuell.ru>, accessed at 20/02/2008). This will strengthen Russia's role as Russia is an important market on the doorstep to Europe (Shulzhenko, 2008; Telephone Interview with Mr. Fuss, Ernst & Young Central Europe, Automotive, 24/10/2008). Russia is characterized by its enormous low vertical-integration as OEMs did not outsource, but produced on their own. Today many Russian OEMs have still more than 50% integrated manufacturing of parts and in the past AvtoVAZ was 100% self-sufficient (Personal Interview with Mr. Kero Franz/ Business Development/Market Research & Planning, Magna International Europe AG, Oberwaltersdorf, 25/10/2008). There are still three to four major suppliers which are closely bound to their OEMs. Nevertheless, due to the highly attractive market an inflow of foreign suppliers is visible, even if localization is a complex endeavor (Telephone Interview with Mr. Ivan Bonchev, Ernst & Y Russia, Moscow, 29/10/2008). Quality provided by local suppliers is still in its infancy, and therefore the demand for international suppliers and their higher quality approach is definitely consisting. In the meantime, companies like Ford and GM have started individual training programs for local suppliers to increase quality consciousness (Mayer, 2007). Moreover, two thirds of all international suppliers are not present at the Russian market yet, but most of them plan to enter (w/o author, Automotive Industry in Russia, Swedish Trade Council in Russia 2006, bit.ly/1jE7AgW).

China

Even if China is still a communist country, it can be perfectly described as the “most capitalistic communistic state” in the world. Nevertheless, China still imposes substantial limits to individual political freedom and even human rights and leads a totalitarian dictatorship (Hill, 2009). On the contrary, in economic terms, China moves away from a strict communistic ideology towards more economic freedom (Hill, 2009). Nevertheless, China has already reached its peak referring the development of the GDP rate (Robinet, 2008). Nonetheless, it is not only the GDP which influences China's attractiveness, as the following table shows:

TABLE 2: DEVELOPMENT OF CHINA'S BENEFITS (Eng and Eng, 2003).

Parameters	Future development
Market size: China has the largest population in the world and is therefore a huge consumer market, which influences the B2B business.	China's population is the biggest in the world and still growing. Nonetheless, China's one-child policy led to a decreasing birth rate. Consequently, China will be surpassed by the still intensively growing India in terms of population. This leads to the fact that the population is growing by about 16 million people yearly, whereas only 10 million people are capable of finding work. With more than 800 million people China's workforce is the largest one on global scale
Potential: China is still demanding and the markets are still not saturated.	Even if the growth rates decline, demand is still enormous, especially in the automotive industry. Nevertheless, demands are also changing and sales are getting more and more sophisticated.
Infrastructure: Infrastructure is a major point as it enables the access to untouched markets.	Compared to other developing nations or BRICs China offers investors comparably good infrastructure channels within the economic regions.
Cost-saving: This aspect was among the major motives of companies, moving to China out of production reasons.	Nowadays foreign investors have to fight with increasing wage levels, which will even enhance in future. This will make China less attractive from the perspective of production globalization. China is facing a high income disparity, which still fuels the cost-saving advantages. In cities like Shanghai e.g. workers earn 2.5 times more than in rural provinces (Taketani, 2008). Nonetheless, the wage level is increasing, owing to new labor laws which also enhance the minimum hourly payment rate. As a result, China is shifting towards more valuable manufacturing in terms of wages ("Die Presse", Print Issue, http://bit.ly/VZt4tK , 01/12/2008; Bradsher, 2008).
Resources: China has had a	China's appetite for resources has already exhausted many of its own sources and

wide variety of natural resources, like 150 different minerals.	may lead to global unrest concerning scarce resources.
Location: China's country is very central, as it shares border with 15 other states.	This fact may prove as essential for foreign investors due to logistical advantages. Nevertheless, an efficient infrastructure in order to efficiently connecting China with these countries is still missing.

Besides the aspects mentioned above in the table, China faces also other difficulties, such as pollution. The central government and major cities consider implementing stricter restrictions concerning car emissions as China should catch up with European emission standards. This aspect will lead to the necessity of a greater demand for higher quality cars and parts which are environmentally-friendly. This development could be perceived as a chance for international suppliers which have experience in this field (w/o author, Entering Mainland's Automobile Supply Chain/ Opportunities for Auto Part and Related Industries, TDC Research, Hong Kong Development Council, 2004).

Another aspect which has to be considered, especially when acquiring a Chinese company or participating in a joint venture, is the special management style, which is referred to as the "dumpling style of management". Many production plants are located in rural areas and managers from the cities are "expatriated" to these facilities as locals rarely possess the necessary skills in the field of leadership and management. These "foreign" managers surround themselves with so-called "home boys", based on the fact that managers from Beijing try to find subordinates also coming from Beijing. This fact is hardly known, especially not by foreign investors. This results in crucial communication problems (Eng and Eng, 2003; Kasperk, Woywode and Kalmbach, 2006), which is the same for Guanxi, "*as it is one of the major dynamics in the Chinese society*" (Luo, 2000). Guanxi describes interpersonal relationships and is one of the major forces within Chinese business. Guanxi binds millions of Chinese firms into a social network (Qian, 2006). One basic of Guanxi is the group, which refers to the collectivist principles of the Chinese culture. The first principle of Guanxi is transferability. This means that if A has Guanxi with B and B has a friend – C – then B can introduce or recommend A to C or vice versa. This relationship is also applicable in business and represents the fact that Chinese companies focus on keeping business within their Guanxi network. Secondly, Guanxi is reciprocal. People who do not fulfill a favor in the sense of reciprocity, will lose face and consequently honor and business. Thirdly, Guanxi is intangible. Therefore, it does not have any written rules, but is orally (Luo, 2000). Another aspect, many interviewees have considered are threatened property rights. The automotive supplier GEBA for example, which cooperates with distribution partners in the Chinese market, states that the risk of being copied definitely exists. Sometimes completely "parallel companies" are created, which sell parts 300 - 500% cheaper than the original manufacturers (Kasperk, Woywode and Kalmbach, 2006). Moreover, the political system is still totalitarian and communistic, which may cause difficulties and the Chinese banking system is still in its infancy, which enhances market entrance barriers (Kasperk, Woywode and Kalmbach, 2006).

Besides the drawbacks mentioned above, the development of the Chinese automotive market has been amazing over the last years. China has experienced tremendous foreign investments, not only because of its potential market, but also due to its cost advantages (w/o author, Inside China/The Chinese view their automotive future, Report IBM Institute; Huang, 2008). China's automotive industry is highly competitive and complex. The local Chinese automotive companies have a communistic background and are still companies under governmental influence. Moreover, the entire branch is shaped by a decentralized strategy. This is an effect of military decisions of the past. In those days each region had its own automotive plant. Nowadays there are still more than 2440 car producers, but the majority is not categorized as "complete automotive manufacturers" (Kasperk, Woywode and Kalmbach, 2006). The biggest market share goes to the top ten manufacturers, including Volkswagen's and General Motor's joint ventures, which together occupy 80% of the entire sales (w/o author, Entering Mainland's Automobile Supply Chain/Opportunities for Auto Part and Related Industries, TDC Research, Hong Kong Development Council, 2004). As a consequence, the key factors in China's competitive market are a clear localization strategy with a strong customer focus. This fact also includes the delivery of a superior brand. Additionally, it is important to establish a working dealer network and to drive down costs along the entire value chain, which also increases the pressure on potential suppliers (w/o author, Winning in Today's Chinese Automotive Market/ Article - the Boston Consulting Group, 2005). China's automotive component market was projected to be worth about \$ 46 billion in 2006, and it could overtake the United States by 2015 as the world's number one automotive market (Madden, 2008). This fact is also valid for local production. International suppliers focus primarily on technological advanced products, whereas the local suppliers are responsible for the basic parts (Kasperk, Woywode and

Kalmbach, 2006), which shows, that the Chinese automotive supplier industry lags five to ten years compared to the suppliers in advanced markets (w/o author, Entering Mainland's Automobile Supply Chain/Opportunities for Auto Part and Related Industries, TDC Research, Hong Kong Development Council, 2004). In addition, China's automotive supplier industry is characterized by high local content requirements, which fuel the demand for local suppliers. These regulations are set by the government in order to fulfill the 10th 5-year plan which considers the local automotive industry to be strengthened and more independent from international OEMs and suppliers (Kasperk, Woywode and Kalmbach, 2006). Nonetheless, from the perspective of an Austrian based medium-sized supplier, Mr. Fuss states that China is not a suitable place for plain outsourcing as transportation costs would weigh out all the benefits (Telephone Interview with Mr. Fuss, Ernst & Young Central Europe, Automotive, 24/10/2008; Wyman, 2007).

When to enter

The response to this question may point out which strategy can, should or will be put into action for entrance. The automotive and automotive supplier industry is rather dynamic and consequently, companies have to react quickly as windows of opportunities close fast. If an OEM has made its decision to cooperate with a specific supplier, this cooperation may last for a long time and will not allow chances for competitors. Therefore, it is essential to choose the appropriate timing strategy, of being the first-mover, the early-follower or the late-entrant. In general, the decision should be based on a comparison of chances and risks.

First-mover

If a company decides to enter a market very early it can be perceived as a first-mover. For a long time this strategy was observed to be the most successful one, as it may offer a variety of advantages for the company (Niederländer, 2000). Some advantages are linked to this strategic move as the first-mover can boot out competitors by building a powerful brand and exploit demand. Moreover, the experience curve declines earlier which may allow certain cost advantages like economies of scales. The first-mover has the chance to build up high entrance barriers for followers as described in Porter's five forces model, owing to the fact that he can act as a monopolist in the beginning (Niederländer, 2000). Nevertheless, there are also disadvantages concerning this strategy. Firstly, a first mover is confronted with so-called pioneering costs due to the fact that the establishment of a business in another country differs from the activities in the home market. These costs may also include costs of business failure, costs of promotion, product offering and customer education. The first-mover advantage seems to be really powerful and convincing. Nonetheless, in some cases it turned out that the early followers turned out to be much more successful and to gain a higher market share than the first movers due to modeling (Hill, 2009). Moreover, it is important to clarify the difference between "first-moves" into large developing nations like China and India and "first-moves" into already advanced countries. The first option bears a definitely higher risk for failure owing to the fact that the general country knowledge and security is less established. Another interesting aspect is touched by the question if first-mover options are still existent in our already globalized world (Hill, 2009). Considering pros and cons, a European automotive supplier should monitor the competition in order to be able to react quickly, which will lead to competitive advantages as described above (Wyman, 2004). In the Chinese automotive industry Volkswagen has set successful examples of this strategy. "*The Volkswagen Group is a step ahead based on their first mover advantage*" (Heneric, Licht and Sofka, 2005).

Early-follower

All disadvantages which are stated for the pioneer can be seen as advantages for the follower. Firstly, he has a kind of free rider position due to reduced risks and costs (Niederländer, 2000). He can make use of the experience of the pioneer. Therefore, the market appears less difficult to enter (Niederländer, 2000). Furthermore, the differences concerning market shares due to early entrance are not that overwhelming in accordance with economies of scale. As a result, an early entrant with a double market size faces a reduction of costs of only 5 - 10% compared to the follower determined by the fact that the time of entry may also influence the cost effects. Followers may lack market experience, but due to the pioneer work of the early entrant, the market costs for the entry may also have decreased (Niederländer, 2000). It is to mention that especially the Russian setting may not enable the first entrant neither the followers to reach the minimal volume of turnover due to the presently limited market size (Niederländer, 2000).

Late entrant

The strategies of the pioneer and the early follower are similar, whereas the late entrant follows a completely different approach. When he enters the market, he does not bear any risks as he already knows the customer needs and distribution channels. Therefore, he has the chance to adopt a me-too or a niche strategy. The me-too strategy could refer to the leadership in cost strategy described by Michael Porter, whereas the niche strategy can be linked to Porter's differentiation strategy (Niederländer, 2000).

How to enter

Besides sales channels, two further aspects are important to mention: Key-Account Management and the follow-the-customer strategy. Key Account Management plays an important role in the automotive supplier industry. As competition is also increasing in emerging markets, especially in China, the necessity for Key-Account Management is enhanced in order to maintain existing customers also in the new market (Kasperk, Woywode and Kalmbach, 2006). The second aspect – the follow-the-customer strategy plays a major role as it is the core part of this industry. Owing to the fact that suppliers focus heavily on their customers, they create mutual dependency (Kamp, 2007). Therefore, also the chosen sales strategy of a supplier is connected to the customer. These ties are rather strong, as the example of Hyundai shows. Hyundai only accepts suppliers which are Korean or at least cooperate with Korean suppliers. Nevertheless, the situation in Russia and China is slightly different. Russian OEMs for example have a strong drive for reducing the suppliers due to their low quality, and are consequently willing to change to international suppliers (Personal Interview with Mr. Kero Franz/ Business Development/Market Research & Planning, Magna International Europe AG, Oberwaltersdorf, 25/10/2008). Besides these two peculiarities in the sales concept of an automotive supplier has to contain appropriate sales modes within the countries, which are described in the subsequent chapters.

Export

Export is the basic form of a market entry and takes mainly place with importers as it is the case in Russia. If indirect export is applied, the supply chain stretches, but especially for tier2 or tier3 suppliers this can also be advantageous. Export via importers is beneficial as they have a certain experience with licenses and maintain an existing distribution network. As far as Russia is concerned, the majority of these importers are placed in Moscow due to communistic roots. In addition to the international security certificates, specific ones are needed and in case of Russia, also the importers can take a supportive role (Valiullin and Valiullina, 2006). The company Fronius as well as many other Austrian based suppliers do not directly operate on the Russian market. In general, Fronius presents a suitable example for a sales concept via sales distributors. The sales HQs of Fronius are based in Austria. From there the sales partners and subsidiaries in the different countries are steered and monitored. Firstly, in an interesting country a close relationship to a sales partner is built up. Then this main partner acts as a base for further exploration. The selection of a suitable partner is essential as he acts as a representative of the company and has to fulfill service, training and sales tasks. Moreover, he selects further representatives throughout the country to create an efficient sales network which is under his control as Fronius only delivers to the main sales partners (Personal Interview with Ms. Erika Lasinger, Business Development, Fronius, Wels, 13/10/2008). The described strategy is also followed by GEBA, which delivers goods to Russia by indirect export in order to minimize risks. The business is organized by agents who release the company from any duty concerning language or specific know-how. In contrast to Russia, the Chinese market is handled by GEBA via direct exporting to European companies that have subsidiaries in China, especially in Hong Kong (Telephone Interview with Ms. Liane Gnegeler, Geba Kunststofftechnik GmbH & Co. KG, CEO, 02/11/2008). In Russia, direct export can be realized via the implementation of an own sales subsidiary, which prevents from facing the main drawbacks of indirect export as the collaboration with an importer may lead to several problems. It may for example be difficult to get accurate reports from importers about the sales of the products, as reporting systems are not in place (Valiullin and Valiullina, 2006). In principle, the automotive manufacturers expect their suppliers to be present in the market, but in specific cases also export is possible. In China, export is just an option for suppliers within niches which are not affected by heavy price competition as OEMs also anticipate low prices which are comparable to the Chinese price level. For example German automotive suppliers which operate in China are expected to give price reductions of 40% when selling in the Chinese market (Kasperk, Woywode and Kalmbach, 2006).

Licensing and Franchising

Licensing and Franchising can be applied to the globalization of production as well as the globalization of sales. In Russia, licensing can only be realized when the relationship between the sales partner and the company has already developed onto a high level. On the one hand, licensing bears the advantages of cost reductions in terms of custom fees and transportation costs. On the other hand, it also means the risk of a loss of know-how (Valiullin and Valiullina, 2006). In China it is most essential to include a security clause in the licensing or franchising contract in order to make the first step towards an intellectual property protection. Nowadays, licensing is not that common anymore in China, as the market entrance barrier is rather low as a result of the WTO commitment. In China franchising is mainly used by suppliers like Goodyear which intend to serve the after-market and consequently are determined to build a distribution network in the country (Kasperk, Woywode and Kalmbach, 2006).

Cooperation and Collaboration

“International collaboration is a range of inter-firm cooperative arrangements in which resources are shared” (Huges, 2001). Automotive and automotive supplier industries may participate in cooperation to enforce their powers by combining the strengths of different companies (Takahiro, 2007). More than 100 formal collaborations have been established by global automotive companies and automotive suppliers. Cooperation improves the capability of its members, as no one is perfect at all tasks. Therefore, cooperation helps to complete each other and limit the risks when entering a new market (Takahiro, 2007). Nonetheless, it remains a fight of compatibility between cooperation and competition. Cooperation tends to increase the car manufacturer’s competitiveness, as their weaknesses are equalized. OEMs as well as suppliers may profit from this growing oligarchy owing to the fact that car models get more similar and therefore platform advantages can be exploit (Takahiro, 2007). In China it is suggested that foreign-investors in the automotive supplier industry should cooperate with competitive partners from Hong Kong, as they may be more equal in the processing of business than mainland supplier (w/o author, Entering Mainland’s Automobile Supply Chain/ Opportunities for Auto Part and Related Industries, TDC Research, Hong Kong Development Council, 2004). Some private Chinese enterprises show such ability and flexibility, but only if the international cooperation partner is willing to invest into workforce training and quality improvement measures (Millington, Eberhardt and Wilkinson, 2005).

Foreign Direct Investment

“High levels of FDI are associated with low levels of domestic skill formation” (Gallagher, 2004), which is based on the fact that international companies that enter a foreign country may replace domestic technology providers and therefore reduce the establishment of technological innovations, which decreases the long-term competitiveness of a company. This fact was one of the reasons why the Chinese government allowed only joint ventures as an investment entry mode, because they have also been increasing the know-how level of domestic companies (Gallagher, 2004). In general, there are different steps of FDIs which vary in risk and intensity. They range from a simple representative office with a sole representative function over a joint venture to a fully owned subsidiary.

Foreign direct investment in China

China decided already in 1978 to move away from a centrally planned market system to a market driven one. The result has led to three decades of enormous economic growth. As a consequence these annually growth rates attracted many foreign investors. In the 1990s China was already the second biggest receiver of foreign direct investment after the United States with US\$ 40 000 billion annually. There are already more than 218,000 established foreign enterprises in China. The reasons why China has been so attractive for foreign investors are obvious. On the one hand, China offers a huge market and a relatively cheap production area, which refers to both main motives for globalization as discussed in the first chapter. The government tries to keep the attraction by giving more tax incentives to investors in new economic regions as well as by improving the infrastructure in these areas. The reason behind these actions is the disparity between East and West China. Whereas some provinces close to the east coast are fully equipped and developed, rural areas are lacking everything to attract foreign business. Nevertheless, the highly

developed areas like Hong Kong, Shanghai and Beijing no longer provide cheap labor and production costs, therefore many companies that mainly focus on the production side of globalization may lose interest. The government tries to move the caravan more to the still cheap areas in the west of China (Hill, 2009). On the contrary, China had strict import tariffs, which made it rather difficult to gain profit solely by export. Although China is already a member of the WTO and trade barriers have significantly been reduced, red-tape barriers like Guanxi are still existent (Kasperk, Woywode and Kalmbach, 2006). Especially in China a representative office is of major importance as local presence is a crucial factor. It is important to provide a local face in order to establish and maintain contact to authorities, customers and suppliers. Firstly, a representative office should be supported by a Chinese partner. Another possibility is the participation in a company pool, which reduces costs and risks. A representative office in China is not allowed to gather income and it is also limited to the duration of three years. Nonetheless, it helps to explore the market and to present the brand (Kasperk, Woywode and Kalmbach, 2006). Nevertheless, doing business in China without local know-how provided by a Chinese partner can be really destructive as the business environment is still highly regulated. In general, direct investments in China are a long-term task, as it is rather difficult to find a suitable and trustworthy partner. The factors which were described in the China chapter are real disturbers for small- and middle-sized companies as amortization period is prolonging due to these cost factors. Therefore, it is extremely important to consider all possible costs before deciding to move to China (Kasperk, Woywode and Kalmbach, 2006).

Mergers and acquisition in Russia and China

Another option for foreign direct investments is the buy-version, which means brownfield investments like mergers with acquisition of existing companies. In Russia brownfield investments are also suitable for medium-sized projects and offer the possibility to use the knowledge of the local partner and to calculate costs (Valiullin and Valiullina, 2006). In Russia as well as in China, automotive supplier companies are still lacking sufficient know-how and tend to overcome this lack by an acquisition strategy. Their main target groups are international suppliers which can enhance their skills and intellectual property (w/o author, Inside China/The Chinese view their automotive future, Report IBM Institute, University of Michigan). In Russia, mergers and acquisition between international and national suppliers have been possible since 2003 (Kasperk, Woywode and Kalmbach, 2006). Secondly, the consolidation between domestic suppliers which is taking place currently will be continued in the next years being a natural process within the product life cycle (w/o author, Inside China/The Chinese view their automotive future, Report IBM Institute, University of Michigan).

Joint venture policies in Russia and China

For many years establishing a joint venture has been the only possibility to undertake foreign direct investment in China. In addition, it has also been one of the riskiest projects as the close partnership bears an immense danger of illegal transfer of intellectual property (w/o author, Inside China/The Chinese view their automotive future, Report IBM Institute, University of Michigan). Moreover, cultural aspects may be hampering. WOSs would prevent from these difficulties, but on the other hand joint ventures support foreign companies that need local partners to manage supplies, sales, logistics and other distribution functions, even if it is difficult to reduce costs or purchase the required amount of local products (Eng and Eng, 2003). On the other hand, many Chinese joint venture partners complain about their international counterparts owing to the fact that they are basically interested in making profit instead of building a trustful relationship (w/o author, Inside China/The Chinese view their automotive future, Report IBM Institute, University of Michigan).

In general, there are two basic types of joint ventures. Firstly, “*sino-foreign equity joint ventures (EJV) are a limited liability cooperation in which the Chinese and foreign partners jointly invest in and operate the cooperation*” (Eng and Eng, 2003). Both parties carry costs and rewards. Typically, the foreign partner provides the technology, capital and management skills, whereas the Chinese partner offers facilities, materials and workforce. Foreign partners must contribute at least 25 percent of the entire capital. Another form of joint venture is the sino-foreign contractual joint venture (CJV), which allows the two parties to remain independent and separate their liabilities (Eng and Eng, 2003). It is mainly used for smaller companies in mainland China (Fung, 1997). WOSs are more flexible to react to the fast changing environment. In China this aspect is perceived as a major advantage by companies like Basell (Telephone Interview with Mr. Lyondell Basell and Mr. Waldemar Oldenburger, 23/07/2007). On the contrary in Russia Basell appreciates joint ventures as they are an excellent mode to work the market due to the fact that the market is not changing fast and the partnership provides more closeness to the local market (Telephone

Interview with Mr. Lyondell Basell and Mr. Waldemar Oldenburger, 23/07/2007). In general, Russia, compared to China, is still amid another step of the production life-cycle. Consequently there is another significant trend affecting the automotive manufacturing industry; it is the shift from “screw-driven assembly” (SKD) to full local production realized with joint ventures (Terterov, 2003).

Wholly-owned subsidiaries in Russia and China

As stated above, since the commitment to the WTO mainland China allows 100% foreign ownership. Nevertheless, not all companies are allowed to get the status of a wholly-owned subsidiary. In order to qualify themselves they have to fulfill certain technological standards. Moreover, in China WOSs have to export more than 50% of the entire production and they have to employ a majority of Chinese workforce (Fung, 1997). In the automotive industry WOSs are not allowed to get established, but in the automotive supplier industry they are (Kasperk, Woywode and Kalmbach, 2006). In Russia a WOS mode is solely suitable for really big projects since technology has to be protected from outsiders (Valiullin and Valiullina, 2006).

Conclusion

Russia as well as China offer outstanding advantages but also tremendous drawbacks. As both countries are very interesting for the automotive supplier industry, it is, from a theoretically point of view, rather difficult to decide whether to follow the customer into the one or into the other country. Therefore, interviews with experts have been conducted in order to emphasize the practical view and give valuable insights into the strengths and weaknesses of both areas. Basically, Russia has a significant advantage compared to China, which is its geographical and cultural closeness to Europe. Many companies consider this aspect as a major advantage and consequently define Russia as the market with the higher potential.

China has a vast market and the entire volume is tremendous, but only a small slice of the entire cake is open for Austrian suppliers which have to maintain a certain price and quality level. Nonetheless, in consideration of the production costs, China is still a low cost market, although wage levels are also in the rise. The entire market is not that dynamic anymore, but if the economic situation will improve and disposable income will be increasing again, the demand for better and more developed car models will be stimulated as well (Personal Interview with Ms. Kleinburger, Magna, 25/10/2008). From the perspective of production it is definitely different. If the major aim of a company is saving costs, it makes sense to go to low-cost countries like China for production and to re-import the goods to Europe. The main benefit is the cost saving aspect due to lower operation costs. Nevertheless, these yields are sometimes eaten up by the high transportation costs. Moreover, it leads to a long supply chain which provides high risk and therefore endangers reliability and just-in-time requirements. Therefore, China is a main destination for outsourcing, but suppliers will not apply this strategy. Another disadvantage of the Chinese market, in addition to its cultural distinctiveness, is the risk of brain drain in China, which makes it rather unattractive for know-how-based companies to invest and enter. Russia is subject to fewer risks concerning this aspect. Even if corruption is prevailing and a continuous problem that many companies, especially smaller ones, fear, Russia seems to be culturally closer to Austria. Moreover, in Russia the C-segment is booming most. In comparison with the B-segment or A-segment which is more demanded in China, the C-segment provides definitely higher margins. Moreover, this high-class field requires parts with higher quality and consequently Austrian suppliers could focus on their strengths instead of competing solely on the price. The acquisition of new and unknown customers might be rather difficult in this new environment; therefore supplying companies mainly apply the follow-the-customer strategy when entering the Russian market. Nonetheless, it also makes sense to take a closer look at national car makers, as these have a limited variety of models, which allows the supplier to realize economies of scales within a shorter time period.

In case that a supplier undertakes a direct foreign investment, it is most essential to find the right location in order to ensure smooth operational costs. The location plays a strategic role, owing to the fact that Russia has neither a developed supply chain network nor a tier structure and is still suffering from deep vertical integration. The lack of potential tier1s, tier2s and 3s as well as raw material suppliers may turn out as a real setback especially for smaller foreign suppliers. To put it into a nutshell, Russia remains a risk factor among every internationalization strategy as it is potentially as well as economically rather unstable. As a consequence the recommended sales concept might be a joint venture, in order to acquire local knowledge from the cooperation with local partners. A greenfield investment seems to be too risky, whereas direct export may be hampered by logistical difficulties and intercultural differences. In Russia the automotive

market is still a relatively new market and provides particularly at the moment and near future huge chances for foreign suppliers. The chances for new-entrants are still better as it is easier to establish first-mover advantages, which are essential in the automotive supplier industry.

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Gaining Knowledge from Practice: Austrian Companies' Experiences in entering CEE Markets

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Abstract

For Austrian (B2B) companies, the rapid development of Central and Eastern European countries appears to offer very attractive locations for expansion and opportunities for achieving their goal of becoming competitive market participants. These companies need a precise indication of critical success factors and trends concerning Marketing and Sales Management in the CEE-region, especially after the latest financial crisis. Findings from a barometer study with 244 respondents, conducted by the University of Applied Sciences Upper Austria, aim at serving as a pool of experience for markets entries and penetration of the Czech Republic, Slovakia, Hungary, Poland, Russia, the Ukraine, Bulgaria and Romania. Selected findings with respect to reasons for market entry, market information and market entry mode are presented in this paper.

Introduction

The growing importance of Central and Eastern Europe for Austrian foreign trade contributed significantly to the internationalization of the Austrian economy. When compared internationally, Austria's exports are exceptionally closely intertwined with these economies. The high market share underlines Austria's position in this region. In the long run, the Austrian economy can only benefit from this once a dynamic growth is underway again in Central and Eastern Europe after overcoming the economic crisis (Sieber 2010).

Numerous Austrian companies are already successfully operating in CEE countries; many other companies are actually on their way to expand their business into these regions. These companies need a precise indication of critical success factors and trends concerning marketing and sales in Central and Eastern Europe. This includes important aspects before and during the process of internationalization, starting from decisions whether to internationalize or not, including typical patterns of information retrieval and analysis, decisive factors for selecting target markets, implementation of marketing communications as well as relationship management issues with local partners and motivational aspects of local or expatriate sales staff.

Accumulating the experience of successful companies already active in CEE countries and discovering critical success factors is the overall aim of a barometer study started by the department of Global Sales and Marketing at the University of Applied Sciences Upper Austria. The study has been administered twice, once in 2007-2008 and once in 2013. This allows the derivation of a longitudinal interpretation of several aspects of internationalization and sheds light on the question as to what extent the market situation has changed when comparing the data from before and after the economic crisis of 2008. While some experts argue that CEE was heavily hit by the economic crisis and still needs time to recover, others state that CEE is already back on track to economic growth.

The study comprises a sample of 240 B2B companies with up to 500 employees, reflecting the Austrian company structure, which shows a large percentage of such middle-sized companies.² The study's geographical range comprises eight CEE European Union member states (Czech Republic, Slovakia, Hungary, Poland, Bulgaria, and Romania) and two GUS states, namely Russia and Ukraine. Russia ranks 10th in Austria's foreign trade partners³ and is a declared promising destination for Austrian business activities.

In this paper, three research questions, contrasting findings from 2007/2008 and 2013, are discussed.

² https://www.statistik.at/web_de/services/wirtschaftsatlas_oesterreich/branchendaten_nach_beschaeftigtengroessenklassen/index.html (retrieved: April 22, 2014)

³ http://www.statistik.at/web_de/services/wirtschaftsatlas_oesterreich/aussenhandel/

1. Literature review and research questions

In no other EU-15 country do exports to the CEECs showed larger values than in Austria (2008 Austria 17.5% of total exports, Greece 16%, Germany 11.5%).⁴ Several aspects contribute to the importance of Central and Eastern Europe for Austrian foreign trade: besides geographical proximity, historical and economic relations with these countries long before the opening of the East (Stankovsky 1998) provide a “natural” relationship between Austria and these countries. This is why Austrian companies have entered these markets at an early stage and thus have taken benefit from the opportunities of liberalization of foreign trade between the EU and the CEECs well before the EU enlargement to the east opened the borders to all EU members.

Nevertheless, internationalization not only to CEE but in any region is risky and challenging, hence also for Austrian companies expanding their business to CEE (neighbouring) countries needs careful consideration and a lot of knowledge in different fields. First-hand knowledge from companies already successfully active in these countries is a valuable source for those who are taking their first steps towards CEE. For the study at hand, the knowledge of many successful companies is accumulated and presented in a structured way. The following areas of research have been identified:

Reasons for Market Entry

Apfelthaler (1999) discusses driving and restraining forces and their relevance for market and strategy selection in the international market entry context. From an economic point of view, Austrian companies’ growing activities in CEE markets strengthen their competitiveness notably and ensures employment (Wolfmayr 2010) A relevant driving force is certainly the fact that “with a population of 135 million people, Central and Eastern Europe is among the world’s most rapidly advancing economic regions” (Theiss 2011) Restraining forces like lack of information about local competitors or possible partners, unclear regulatory frameworks, inexperienced bureaucracies and corruption (Schuh 2012, p. 190) cannot keep Austrian companies from investing. Schuh (2012) furthermore mentions high growth rates and lower costs as strong motives for Austrian expansion into emerging markets.

RQ1 aims at identifying the reasons for market entry and possible changes over time.

RQ1: What are Austrian companies’ reasons for entering CEE markets and how did their prioritisation change over the time?

Sources of Information prior to Market Entry

Internationalization models, such as the “Uppsala model” developed by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) include the aspect of “market knowledge” as an element of a causal cycle. Through growing experience in a market the firm acquires market knowledge, thus leading to finding new opportunities in a market. The influence of knowledge in a firm represents a competitive advantage. It helps to accelerate the process of internationalization. However, in the initial phases of internationalization, this knowledge is lacking and it becomes an impediment in developing an international market. Hence, firms need to collect market knowledge through various channels and sources.

To go abroad, the firm must acquire deeper knowledge about the risks associated with the different markets in terms of business principles, regulations, norms, product specifications and standards, laws governing the country, and cultural differences in doing business (Doole and Lowe, 2005). Some products must follow certain norms and it is pivotal to have this adequate business knowledge before a competitive product can be offered in the new market.

Furthermore, knowledge about the different actors involved in the network (suppliers and customers) may be missing prior to the market entry. Good business knowledge is needed to identify opportunities, being able to suit the demand of potential customers and understand threats in the foreign market (Johanson S. and Lindbergh J. 2010).

RQ2 seeks to uncover information sources being used by the respondents and how they evaluate the contribution of single sources to fill the knowledge gap when entering a new CEE market:

⁴ UNO; Austria: Statistik Austria.

RQ2: Which sources of information are used by companies when entering CEE markets and how are they ranked in terms of their contribution to the knowledge needs of Austrian companies over time.

(Recommended) Market Entry Modes

Engelhard and Eckert (1993, referred to by Schuh 2012) claim that entry strategies of companies mainly reflect their primary motives and attitudes to risk. According to them, risk-averse companies tend to rather follow the classic incremental internationalization process, building up their commitment step by step, while the more daring market entrants rather choose entry forms like joint ventures with local competitors or acquisitions (cf. Lewis 2005). Meyer (2001) includes psychic (cultural) distance in the discussion of market entry into CEE countries, claiming that entrants from countries with less distance are more likely to establish wholly-owned subsidiaries (p. 360).

RQ 3 seeks to clarify the respondents preferred modes of internationalisation:

RQ 3: What are Austrian companies' main modes of internationalisation in CEE and how did these modes change over time?

2. Methodology

The methodology of this paper comprises short literature reviews as a basis for developing the three research questions. The paper furthermore refers to data from a quantitative barometer study, which was conducted via personal in-depth interviews with Austrian CEE-managers in 2007/2008 and 2013.

Sampling frame and sample:

The sampling frame consisted of company listings in different business databases (mainly in Hoppenstedt). Austrian companies with indicated activities in one of the 8 CEE-markets were selected, resulting in a list of 30-100 companies per country market. The sample size was determined by 30 companies from each country using quota sampling to select interviewees with sufficient experience in marketing and sales in the respective markets.

Measurement instrument:

The questionnaire was developed on the basis of existing literature and five expert interviews with international sales managers in order to gain knowledge about key issues and the most important aspects of Austrian business activities in CEE countries. After a pre-test, the preliminary questionnaire design was finalized.

Field work:

In 2007/2008 and 2013, the selected companies were contacted by telephone in order to identify marketing/sales managers in charge of the selected country markets. Subsequently, the company representatives received a questionnaire and were thus able to prepare for the phone interview at a previously fixed time.

3. Findings

RQ1: What are Austrian companies' reasons for entering CEE markets and how did their prioritisation change over the time?

The answer to the question why a company would enter a CEE-market was mainly because of expected market potential or market size (78 index points/100, where 100 = very important reason). This number remained the same when comparing findings from 2007 and 2013. The second most important reason for entering CEE-markets was their strategic importance (74 index points in 2007), which has become even more important according to our findings in 2013 (83 index points). The third most important reason according to the 2013 barometer study was market coverage (69 index points). Aspects, which have gained importance over the years, were market entries initiated by previous projects in the respective markets (54, i.e. plus 12 index points in 2013) and cultural barriers, which seemed rather low (51, i.e. plus 15 index points). Reasons like market research (30 index points), low wage costs (21 index points) or lack of qualified employees in Austria (5 index points) are only of minor importance in comparison to the above-mentioned reasons. These findings underline once more how strategically important the CEE neighbouring countries of Austria are for the Austrian economy and how companies strive for market coverage in these areas. Over the years and by experience, obviously, cultural barriers have a tendency to appear lower.

RQ2: Which sources of information are used when entering CEE markets and how are they ranked in terms of their contribution to the knowledge needs of Austrian companies over time?

When it comes to entering a new market, different aspects were perceived as helpful. In index points, where 100 was “very helpful”, insider knowledge of employees with experience was at 81. Personal experience with other CEE countries (78) and insider knowledge of sales partners (77) can be ranked second and third with respect to usefulness. In comparison to 2007, the Internet as a source (+15), contact to other Austria companies in similar situations (+14) and Austrian networks abroad (+13) have gained importance. Export-supporting companies, market research institutes and universities were listed last in the ranking concerning their helpfulness when preparing to enter a new CEE-market. Tax advisors (-9) and newspapers (-4) lost importance in comparison to 2007.

RQ 3: What are Austrian companies' main modes of internationalisation in CEE and how did these modes change over the time?

The participating companies were also asked which entry mode they used at the time of market entry, which mode they are using today and which mode they would recommend for the respective markets. In the 2013 barometer 34% reported a market entry via direct sales, 33% reported a market entry via their own sales subsidiary and 27% via sales representatives or distributors. Today, 52% of the respondents work via their own subsidiaries, 28% with sales partners and only 16% via direct selling. Only 44% of those, choosing direct selling upon market entry, maintained this form of market penetration, whereas 18% are nowadays cooperating with sales partners and 35% have their own subsidiary. 75% of those, entering the market with a sales partner, maintained the chosen entry mode, whereas 25% founded their own sales subsidiary. When asked for the recommended form of market entry for CEE-markets, 34% named sales partners, 33% an own subsidiary and 25% direct sales from Austria. It has to be mentioned that the recommendation rate of sales partners and sales subsidiaries is rather high (74% of those, choosing a subsidiary for market entry, would still recommend it today, and 76% of those, choosing sales partner cooperation for market entry, would still recommend this mode today).

4. Conclusion

In this paper, an extract of the study, i.e. three research questions were presented, based on data from a 2007/2008 and 2013 barometer survey about marketing and sales strategies of Austrian companies in CEE-markets. The main aim was to show how a pool of experiences of over 250 companies might serve as a landmark for (e.g. automotive) companies being active in or preparing an entry into CEE-markets. **Entering CEE-markets (RQ1)** seems to be a strategic market coverage goal, which might be connected to the Austrian geographical position and history. It furthermore appears that Austrian companies are still convinced of the market potential of the CEE-region, where, according to the 2013 study, Poland, Russia and The Czech Republic are named as the most important markets of the present. A slight pessimism is reflected in the fact that only countries like Poland and Russia were named as being more attractive in 2013 than in 2007/2008. Findings from the 2013 study underline the rising importance of singular project activities as starting points, as well as the perceived lower cultural barriers, which were also mentioned as influencing factors by Meyer (2001) and Schuh (2012). When it comes to **useful information when preparing a market entry (RQ2)**, findings point out the impact of previous experience, skilled employees and sales partners, as well as relationship management and Austrian networks. Especially in CEE-markets, which are often considered as “almost home-markets” by Austrian companies, market research and official institutions like market research companies, tax advisors or sales associations have lost importance over the years. The **market entry mode analysis (RQ3)** showed that direct selling is often used as a starting point, but sales partners or own subsidiaries are then the next and often final step of development. The recommendation rate for sales partners and sales subsidiaries as a first and main mode of market entry in CEE-countries is quite high.

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Case Study

AutoMart Ltd

How to measure business performance and set benchmarks in dealership business

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Abstract

Purpose/Aim – This case study aims at understanding simple management accounts in the automotive dealership business. Participants shall be able to identify and interpret some automotive-specific key performance indicators (KPIs) which can be used to monitor the performance of the overall business and the contribution from the activities of each department. The case study is designed to add financial management content within marketing or sales programs.

Short summary – A car dealer faces performance problems due to sharp and continuous decline in new car sales. Participating in an automotive dealer conference organized by the supplying manufacturer with the theme: ‘Surviving Pressure on Sales’ the owner recognizes the need to investigate a list of KPIs to identify the areas for potential improvement. Furthermore, the dealer recognizes the need to introduce regular reports monitoring this set of KPIs and to measure progress against planned targets (Budgets).

Design/Teaching outline: The case study can be used in two standard 90 minutes faculty sessions. In the introduction session the case study storyboard is followed by an analysis of the performance issues discovered at a dealer conference. Participants will be invited to watch the video interview to gain more detail on these issues. The video is designed to introduce some key principles and content of business management reports; it gives context but not full and detailed explanation. In the second session the detail of the KPIs are explained including their calculation, what they measure and what operational factors influence them. A “live BM Report” from the local market showing local performance levels facilitates the discussion. Finally, students are asked to comment or prepare a written analysis of their observations with particular reference to performance improvement opportunities.

Further possibilities of application - The case study can be extended to the topics of benchmarking and health checks in the automotive distribution business.

Manufacturer STEYR PUCH Automotive background

Manufacturer STEYR PUCH Automotive⁵ was originally established in Austria in 1904; initially the automotive manufacturing division was part of a diversified light engineering group, producing generators, machine tools etc.

STEYR PUCH Automotive AG was created as a separate business entity in 1920, with dedicated production facilities and a distribution network of independent retailers within Austria and Germany. The company manufactured a wide range of cars and light commercial vehicles, expanding production in the 1930s to include heavy trucks.

From the mid-1950s onwards, STEYR PUCH Automotive began to extend its operations into other Western European countries with a range of products which now focused on cars and car-derived vans. In the 1970s, global expansion continued with the formation of STEYR PUCH Automotive Inc, which marketed the car range into the USA and subsequently into other American markets; with this further expansion came the development of some production facilities in Mexico and Brazil.

The late 1980s and 1990s saw STEYR PUCH Automotive dealer networks established in Central and Eastern European markets, while from 1990 the company expanded operations into the South-East Asian markets, with production facilities for part of the model range established in China.

⁵ The authors have disguised most names and identifying information to protect confidentiality.

STEYR PUCH Automotive in Scotland

In 1995, an STEYR PUCH Automotive importer was set up in Scotland's capital, supplying 5 directly-owned dealerships located in major cities in the central region of Scotland. New unit sales through these dealerships grew year on year, reaching 1500 by 1999.

Between 1999 and 2005, STEYR PUCH Automotive expanded its geographical coverage in Scotland, with the selection and appointment of 10 independent dealerships to give representation throughout the market.

New unit sales in Scotland peaked at 7000 in 2007 but have declined sharply since. This decline reflects the trends in the national market as a whole:

- Between 2000 and 2007, national new car registrations increased by an average of 12% year-on-year.
- Between 2007 and 2012 registrations decreased by an average of 7% year-on-year.
- They have now leveled off, at annual volumes similar to 2003.

AutoMart Ltd background

The owner and Dealer Principal of AutoMart – Mr A Daley – was a successful businessman in Scotland. He had built a small family-owned business into a chain of white goods retail outlets in the south-west of the country. He owned the sites.

In 2001, Mr Daley was looking for new business opportunities when he learned that STEYR PUCH Automotive wanted to recruit new dealers into the franchise. With a developing economy and growing consumer confidence in Scotland, Mr Daley felt the retail motor industry would grow rapidly.

In 2002, Mr Daley negotiated a dealer agreement with STEYR PUCH Automotive. He sold his white goods retail sites to help finance the construction of a dealership in a good location near the main population centre in the south-west region; he borrowed €3m to finance the development of the new premises. The dealership - named AutoMart Ltd - opened for business in Spring 2003.

AutoMart's business premises - which were constructed to conform to STEYR PUCH Automotive's exacting corporate standards - have the following facilities:

- A new vehicle showroom with a capacity to display 10 new cars
- A used vehicle forecourt which comfortably displays 50 units
- A mechanical workshop which has 12 fully equipped bays
- A parts department which is large enough to hold €300,000 worth of parts

AutoMart currently employs the following staff in each department:

Sales Department

- General Sales Manager
- 2 New Car Sales Advisers
- 1 Used Car Sales Advisers
- 2 Administrators
- 2 Car Cleaners / Drivers

Service Department

- Service Manager
- Workshop Controller
- Master Technician
- Service Receptionist
- 4 Technicians
- 3 Apprentices

Parts Department

- Parts Manager
- Assistant Parts Manager
- Parts Delivery Driver
- 3 Parts Sales Assistants

AutoMart Ltd performance history: summary

During AutoMart's early years, its sales performance was strong. Mr Daley felt that the business was successful; he was pleased with the decision he had made. There was rapid growth in new vehicle sales volumes and staffing levels were increased to keep pace with this. Although volumes increased, profit margins on these sales remained strong, as demand exceeded supply.

However, the financial crisis of 2008 hit the economy of Scotland very hard, and the retail automotive market suffered more than most. National new car registrations decreased, with imported 'luxury' brands such as STEYR PUCH Automotive experiencing the sharpest falls; the sales performance of AutoMart followed the trend. With falling demand and increasingly desperate competition, it became difficult to maintain sales margins. Profitability was seriously damaged.

Year-on-year, AutoMart's new unit sales present a depressing picture:

2003	220 units
2004	280 units
2005	310 units
2006	340 units
2007	390 units
2008	230 units
2009	190 units

The profits generated by the business as a whole - the Net Profit % Sales - are equally gloomy:

2003	0.2%
2004	1.1%
2005	1.7%
2006	3.1%
2007	3.3%
2008	0.7%
2009	-0.4%

STEYR PUCH Automotive Dealer Conference 2010

The franchise management team of STEYR PUCH Automotive closely monitors the financial performance of dealers, in order to maintain the viability of the network and the continuity of representation in this market.

In 2008 - 2009, AutoMart's performance was typical of other dealers in this market. New car sales were decreasing throughout the STEYR PUCH Automotive network, with profitability falling to very low levels. The financial viability of a number of dealerships was severely compromised.

Some STEYR PUCH Automotive franchise managers had extensive experience of other markets; in some of these, sharp falls in vehicle sales were experienced at different times in the economic cycle. The franchise managers knew that those dealers that prospered in these markets employed specific business policies and practices to ensure survival, despite periodic downturns in sales.

In 2010, to encourage Scotland dealers to consider these policies and practices, STEYR PUCH Automotive franchise management organized a dealer conference with the theme: 'Surviving Pressure on Sales'.

A number of consultancies were involved to lead various workshops, where successful dealers from other markets shared their experiences and what they had learned from them with the Scotland dealers. The conference was further attended by the Dealer Principals from the network, each of whom left with an action plan

AutoMart Ltd: performance issues and tasks

Mr Daley returned from the conference with a list of key topics he felt he should investigate. The dealer conference had stressed that departmental performance and profit contribution needed to be measured and monitored in order to guarantee financial resilience. Moreover, besides the Sales Department productivity

Aftersales assumed greater business significance as – during periods of sales downturn – the more stable profit streams from this department. But Mr Daley knew that the primary business focus in AutoMart had always been on the Sales Department; in fact, he had relied on the Sales Manager to act as a general manager for the whole business. He now knew that he had to ensure that the Service Department was being actively marketed and managed as a profit centre in its own right.

Moreover, one of the workshops of the dealer conference had looked at the way a parts department should be run to maximise profit. Mr Daley suspected that the parts department in AutoMart saw itself primarily as a supply facility for the other departments.

6 months later Mr Daley had the chance to discuss his business with an STEYR PUCH Automotive field manager explaining his implemented activities and measurement indicators (see movie “Measuring & Improving Financial Results in the Auto Industry”). Afterwards, he showed him the yearly BM Report (see appendix) from his local market presenting his improved local performance levels compared to the national averages of the group brand and the top 25% dealers of this group provided by STEYR PUCH Automotive.

He wondered if further management actions could successfully improve performance of his business.

Questions

- What were the major problems of AutoMart?
- What actions were taken by Mr Daley to improve the situation?
- Which key performance indicators (KPIs) did he introduce?
- What do these KPIs measure? Explain them including operational factors which influence them.
- Which performance improvement opportunities can you identify looking at the figures provided in the BM Report? What would you therefore, suggest Mr Daley?

Intention

This case is intended to be used as the basis for training or class discussion rather than to illustrate either effective or ineffective handling of a management situation. **The authors have disguised most names and identifying information to protect confidentiality.**

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Appendix: BM Report of AutoMart Ltd

AutoMart		Dealer Composite				
Company Summary						
	January to December					
	AutoMart		Group		Top 25%	
		<u>% Sales</u>		<u>% Sales</u>		<u>% Sales</u>
Company Sales	7.892.922		9.414.848		11.011.671	
Total Gross Profit	717.056	9,08%	1.157.360	12,29%	1.487.434	13,51%
Departmental Profit						
New Vehicle Sales	5.368		85.593		107.042	
Used Vehicle Sales	5.642		97.643		146.888	
Service Department	88.490		188.393		281.326	
Parts Department	51.501		128.105		211.279	
Total Departmental Profit	151.001	1,91%	499.734	5,31%	746.535	6,78%
Administration Expenses	86.822	1,10%	122.393	1,30%	153.867	1,42%
Indirect Expenses	189.430	2,40%	263.615	2,80%	319.326	2,90%
Operating Profit	(125,251)	(1,59%)	113.726	1,21%	273.342	2,48%
Other Income	142,896	1,81%	129.827	1,37%	137.893	1,25%
Other Deductions	0		0		0	
Interest Charges	(73,983)	(0,94%)	(89,673)	(0,95%)	(119,567)	1,09%
Net Profit	(56,338)	(0,71)	153.880	1,63%	291.668	2,65%
Sales & Profit Mix						
	% Sales		% Sales		% Sales	
New Vehicle Sales	53,49%	3,55%	50,34%	17,13%	47,33%	14,34%
Used Vehicle Sales	36,08%	3,74%	33,82%	19,54%	34,30%	19,68%
Service Department	4,33%	58,60%	5,69%	37,70%	6,07%	37,68%
Parts Department	6,10%	34,11%	10,15%	25,63%	12,30%	28,30%
Total Franchise	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Absorption Rate	40,53%		58,95%		66,50%	

New Vehicle Department 1

	January to December								
	AutoMart: Actual			Group			Top 25%		
	Units	€/U	%Sales	Units	€/U	% Sales	Units	€/U	% Sales
New Car Gross Profit									
Model A	109	427	3,3	119	489	3,8	135	511	3,9
Model B	7	700	3,9	12	712	4,1	12	792	4,4
Model C	77	645	3,5	88	661	3,7	96	687	3,7
Model D	32	699	3,2	40	750	3,4	39	793	3,6
Model E	2	1050	4,1	4	967	3,6	4	840	3,3
Model F	3	1308	3,8	4	640	1,7	3	771	2,2
Model G									
Model H	11	762	3,4	16	928	4,1	15	1266	5,4
Model J	3	505	1,4	4	867	2,3	2	1228	3,3
Total New Car Gross Profit	244	571	3,3	277	616	3,6	299	645	3,7
Other Income		€/U	%Sales		€/U	% Sales		€/U	%Sales
Accessories		54	0,3		63	0,4		67	0,4
Finance Commission		68	0,4		87	0,5		113	0,6
Warranty Income		45	0,3		46	0,3		54	0,3
Incentives and Bonuses		134	0,8		237	1,4		250	1,4
Total Other Income		301	1,8		397	2,3		447	2,6
Total Gross Profit		872	5,1		1013	5,9		1092	6,3
Variable Expenses		€/U	%Sales		€/U	% Sales		€/U	%Sales
Salesman Commission		89	0,5		94	0,5		96	0,5
Pre Delivery Inspection		76	0,4		72	0,4		71	0,4
Cleaning Costs		23	0,1		22	0,1		25	0,1
Total Variable Expenses		188	1,1		188	1,1		192	1,1

New Vehicle Department 2

	January to December					
	AutoMart: Actual		Group		Top 25%	
Direct Expenses	€/U	%Sales	€/U	% Sales	€/U	%Sales
Admin Salaries	233	1,3	212	1,2	225	1,3
Sales Staff Salaries	82	0,5	78	0,5	84	0,5
Advertising	145	0,8	103	0,6	105	0,6
Demonstrators	89	0,5	56	0,3	57	0,3
Other Direct Expenses	113	0,7	67	0,4	71	0,4
Total Direct Expenses	662	3,8	516	3,0	542	3,1
Total Direct Expenses	662	3,8	516	3,0	542	3,1
Total Expenses	850	4,9	704	4,1	734	4,2
Direct Profit	22	0,1	309	1,8	358	2,1
Statistics						
Retail Units per Salesperson	122		145		163	
Total Sales Staff	2		1,9		1,8	
Gross Profit per Salesperson	106.384		146.885		177.996	
Finance Penetration	65%		63%		64%	
Days Supply	23		25		31	
Used Retail : Total New	0.6:1		0.8:1		0.8:1	

Used Vehicle Department 1

	January to December								
	AutoMart: Actual			Group			Top 25%		
	Units	€/U	% Sales	Units	€/U	% Sales	Units	€/U	% Sales
Used Car Gross Profit									
Used Retail	145	857	8,14%	195	923	8,63%	225	1056	9,83%
Used Demonstrators etc	12	626	5,94%	13	955	8,92%	14	1134	10,56%
Wholesale	199	(33)	(0,55%)	169	12	0,19%	188	9	0,14%
Stock Adjustment		(6)	(0,6%)		(67)	(0,63%)		(79)	(0,74%)
Total Used Car Gross Profit	356	348	4,35%	377	478	5,66%	427	559	6,32%
Other Income									
Finance Bonus		56			67			65	
Finance Commission		87			145			154	
Warranty		63			98			114	
Total Other Income		206	1,13%		298	1,94%		302	1,91%
Total Used Gross Profit		438	5,48%		642	7,60%		728	8,23%
Direct Expenses		€/U	% Sales		€/U	% Sales		€/U	% Sales
Salesman Salaries		45	0,56%		34	0,04%		31	0,35%
Salesman Commission		44	0,55%		55	0,65%		71	0,80%
Other Salaries		97	1,21%		86	1,02%		83	0,94%
Advertising		64	0,80%		57	0,68%		59	0,67%
Vehicle Expenses		14	0,18%		15	0,18%		14	0,16%
Stocking Interest / Floor Plan		78	0,98%		58	0,69%		49	0,55%
Other Direct Expenses		81	1,01%		78	0,92%		77	0,87%
Total Direct Expenses		423	5,29%		383	4,54%		384	4,34%
Department Profit		15	0,19%		259	3,06%		344	3,89%

Used Vehicle Department 2

	January to December					
	AutoMart: Actual		Group		Top 25%	
Statistics						
Number of Salesmen		1		1,2		1,3
Retail Units sold per Salesman		156		173		184
Finance Penetration		33%		54%		55%
Used Retail : Total New		0.6:1		0.8:1		0.8:1
Used Stock Turn		4,3		6,3		7,1
Used Stock Days Supply		85		58		51
Average Cost of Sales PUR (exc Recon)		9439		9399		9324
Reconditioning PUR		231		375		360
Used Retail % Total Used		44%		55%		56%
Units 0 - 30 Days		14		18		20
Units 31 - 60 Days		9		8		7
Units 61 - 90 Days		7		6		6
Units 91 Days +		6		1		1

Service Department 1

	January to December							
	AutoMart: Actual				Group		Top 25%	
	Sales	Gross	% Sales	% Mix	% Sales	% Mix	% Sales	% Mix
Labour Sales Mix & GP %								
Retail Labour	160.617	117.250	73,0%	57,4%	77,4%	64,4%	79,1%	64,9%
Warranty	66.037	48.141	72,9%	23,6%	76,9%	15,1%	78,3%	14,2%
Internal	53.166	34.026	64,0%	19,0%	75,4%	20,5%	75,6%	20,9%
Total Labour Gross	279.820	199.417	71,3%	100,0%	76,9%	100,0%	78,3%	100,0%
Sales Mix & Gross Profit %								
Labour	279.820	199.417	71,3%	81,9%	76,9%	84,7%	78,3%	84,2%
Subcontract Sales	24.600	2.755	11,2%	7,2%	13,9%	4,6%	14,8%	4,1%
Lubricants (Oil, Grease, etc.)	36.899	18.892	51,2%	10,8%	54,6%	10,4%	56,1%	11,3%
Miscellaneous	342	188	54,9%	0,1%	52,8%	0,3%	51,7%	0,4%
Total Service Gross Profit	341.661	221.252	64,8%	100,0%	71,6%	100,0%	73,0%	100,0%
Expenses			% Sales		% Sales		% Sales	
Salaries and Wages (Admin.)			21,5%		20,7%		17,4%	
Holiday, Sick Pay and Social Costs			3,4%		3,1%		2,7%	
Advertising			1,7%		1,2%		0,9%	
Equipment & Vehicle Expense			3,6%		2,9%		2,6%	
Other Direct Expenses			8,7%		8,5%		7,3%	
Total Expenses			38,9%		36,4%		30,9%	
Direct Profit			25,9%		35,2%		42,1%	

Service Department 2

Statistics	January to December		
	AutoMart: Actual	Group	Top 25%
Number of Technicians	4	5,4	6,1
Productives: Non Productives	1.0:1	1.1:1	1.2:1
Total Hours Sold (S)	6.274	9.158	10.883
Total Hours Worked (W)	6.775	8.648	9.929
Total Hours Attended (A)	6.864	9.451	10.781
Overall Efficiency (S/A)	91,4%	96,9%	100,9%
Utilisation (W/A)	98,7%	91,5%	92,1%
Productivity (S/W)	92,6%	105,9%	109,6%
Retail Labour Rate (€s)	52,5	54,0	54,5
Labour Recovery Rate (€s)	44,6	49,5	51,7
Work in Progress % Productive Hours	5,7%	5,9%	4,8%
Vehicle Parc (10 years)	1537	1745	1884
Hours Sold per Parc Unit	4,08	5,25	5,78

Parts Department 1

	January to December					
	AutoMart: Actual		Group		Top 25%	
<u>Parts Gross Profit</u>	<u>% Sales</u>	<u>% Mix</u>	<u>% Sales</u>	<u>% Mix</u>	<u>% Sales</u>	<u>% Mix</u>
Trade Sales	23,1%	33,2%	21,1%	41,5%	20,8%	45,0%
Retail Sales	33,7%	5,4%	35,2%	6,5%	34,9%	6,6%
Mechanical - Retail	34,9%	28,3%	36,7%	27,5%	35,8%	
Mechanical - Warranty	17,2%	13,7%	16,9%	7,2%	17,1%	
Mechanical - Internal	24,9%	7,3%	34,8%	8,8%	35,2%	
Bodyshop Sales	23,2%	12,1%	22,6%	8,5%	21,8%	7,3%
Total Parts Sales	26,3%	100,0%	26,3%	100,0%	26,7%	100,0%
Surcharge	(2.1%)		(1.4%)		(1.2%)	
Stock Adjustment	(1.4%)		(0.6%)		(0.4%)	
Parts Bonuses and Incentives	1.1%		1.5%		1.8%	
Total Parts Gross Profit	23,9%		25,8%		26,9%	
Direct Expenses	% Sales		% Sales		% Sales	
Personnel Costs	10,3%		9,8%		9,1%	
Advertising	0,9%		0,8%		0,7%	
Equipment Expenses	0,7%		0,6%		0,5%	
Vehicle Expenses	0,8%		0,7%		0,6%	
Other Direct Expenses	0,5%		0,5%		0,4%	
Total Direct Expenses	13,2%		12,4%		11,3%	
Direct Profit	10,7%		13,4%		15,6%	
Total Parts Gross Profit	126.808		251.360		362.246	
Total Parts Sales	481.322		956.011		1.354.355	

Parts Department 2

	January to December		
	AutoMart: Actual	Group	Top 25%
Statistics			
Parts Sold/Employee	120.330	151.748	180.580
Parts Sold/Parc Unit	313	548	719
Average Stock Value	82.445	105.172	125.583
Stock Turn	4,3	6,7	7,9
Parts per Service hour - Retail	37,8	44,6	50,6
Parts per Service hour - Warranty	44,5	50,1	54,9
Parts per Service hour - Internal	29,6	44,5	50,3
Parts per Service hour - Total	37,8	45,4	51,1

Case Study **Supply Chain Management of KTM Sportmotorcycles**

Value Chain Communication and Transparency Issues in the Dealer-OEM Relationship

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Abstract

Purpose/Aim – This case study aims at assessing the importance of collaboration in distribution channels between manufacturers/importers and motorcycles dealers. Participants will be able to understand how the supply/distribution chain operates, the roles of the supply chain members, their challenges and strategies. The case study is dedicated to courses in marketing, sales or distribution management of business programs.

Short summary – A multi-brand dealer faces delivery problems due to a strike of an Italian tier 1 producer of brake systems. Communicating with another non-competitive dealer which has a single brand strategy the dealer recognizes that the motorcycle OEM treats the various distribution chain members differently. The dealer investigates what can be done to improve communication and dealer-OEM relationship.

Design/Teaching outline: The case study can be used in four standard 45 minutes faculty sessions. In the introduction session topics about strategic alliances in sales partner management, power, dependency, trust, commitment, fairness and influencing strategies can be presented and discussed. In the second stage, the participants read and get familiar with the case study. Then they work out and answer case study questions in groups. A video about single and multi-brand dealership and learning points from the OEM's perspective support them in working out their tasks. The final discussion of results is done in a plenum session collecting the findings of the participants.

Further possibilities of application - The case study can be extended to the topics of marketing channels management, various power constellations in distribution channel systems or communication styles within marketing channels.

KTM Company Profile

The KTM Sportmotorcycle AG based in Mattighofen, Austria, produces and develops race-ready off road and street motorcycles. In 2011, KTM employed 1,755 people all around the world and generated a turnover of € 626m.

The company has different subsidiaries regarding racing, events & travel etc. The products of KTM are distributed to 1200 independent dealers worldwide via 21 sales subsidiaries and two joint-venture companies in Dubai and New Zealand. KTM AG is listed on the Vienna stock exchange.

KTM is the world leader in the off road competition market and furthermore began developing and producing street motorcycles in 1994. The "street product range" is now being extended with new small-engine bikes and in 2008 the company took its first steps into the automobile sector with the X-Bow extreme sports car.

In order to provide an ideal environment for testing and refining the latest material and technical development, KTM is highly present in numerous professional race segments where they have won more than 200 world championship titles so far.

KTM's Strategy

With the goal of always providing the latest technology for its customers KTM heavily engages in innovations and improvements in its R&D center. In the long run KTM wants to be in the leading position among European motorcycle manufacturers.

KTM-Sportmotorcycle Strategic Milestones

- Expansion of its leading role in the "lightweight construction" development sector
- Consistent building of expertise in the fields of "electric mobility" and "component engineering"
- Further development of the distribution network
- Utilization of a global, efficient supplier structure
- Customer service and intensive market research in the generation of new product trends

A feeling of closeness to the customers is fostered above all by the KTM dealers who pass on customer feedback and potential market trends to the company headquarters in Mattighofen. Their professionalism and customer orientation are a key factor in KTM's success. KTM therefore makes every effort to promote sustainable partnerships with KTM dealers based on trust and fairness. The company structure is depicted in the appendix.

Industry Trends

In the last few years the logistics and transportation business started to change faster and faster. Every company has to streamline their processes and structures regarding these issues in order to keep up with the pace of the industry. One of the major trends is the opening of the market all around the world. Companies try to gain most advantages through cheap production in low cost countries in order to keep costs low and try to make the most profit.

They also want to sell their products in as many countries as possible and try to create a global brand. This attitude is associated with certain problems. Every location goes along with the different needs of the people and different competition which tries to serve them. Most of the time this adjustment process is rather difficult and expensive. Companies have to customize their products to local needs and try to create a customer base. The latest step of KTM was the opening of a new store in Panajim, Goa, India where they now offer KTM bikes.

KTM refuses to move their complete production process into low cost countries. They place a high importance on their superior quality and in order to be able to keep their high standards they continue to carry out most of their R&D and also their production in the company headquarters in Mattighofen, Austria.

Bikers United Jordan Ltd.

The Bikers United Jordan Ltd. was founded in 1995 in Pucking, Austria by Jesse Jordan. Jordan was an enthusiastic motorbike rider who, at the age of 31, decided that he wanted to turn his hobby into his profession. Jordan quit his job as a mechanic at Volkswagen and opened his own store.

At the beginning Jordan started out small with only one secretary as an employee. Jordan rented only one exhibition space in a remote location in Pucking for his business. He sold bikes from different brands focusing on Kawasaki, Yamaha and KTM because those were the brands with the highest demand.

Jordan's store grew rapidly and steadily gained in reputation and after just five years of business he could afford a larger store in the middle of the small town. He continued to sell multiple brands and at the end of next year had a staff of eight people in his store and an after tax return of €3 million.

Sourcing Process as Part of SCM Strategy of KTM

The sourcing process is an integral part of the supply chain strategy of KTM enabling reliable and smooth production as well as achieving regular cost reductions which are important tasks in this context. The sourcing process at KTM starts with the development of a sourcing strategy. This process step defines high-level sourcing goals and works out a basic framework for the following steps. Decisions like global or local sourcing, unit or modular sourcing are taken.

The supplier selections process consists of several requests for quotations, internal discussions and rounds of negotiations in order to identify the optimal partner. A careful cost evaluation of sourcing parts is

carried out as a next step. Then the actual sourcing decision is taken, the future supplier is informed and framework contracts are negotiated. Internally the quantities and the respective delivery dates are automatically derived from the bill of material. After the order the delivery takes place. Finally, the order intake means the preliminary end of the process.

Il Freno Della Macchina S.p.A

Il freno della macchina S.p.A. or in short IFDA is a medium sized Italian producer of brake systems and was founded in 1920 in Modena in the Italian province of Emilia-Romagna. The company started as small repair shop for cars and motorbikes and developed after the Second World War into a highly specialized supplier for the automotive industry. IFDA has worked together with KTM for several years. The business relationship is on a professional level and so far serious delays have not occurred.

Due to the economic conditions in Europe the situation for IFDA is currently not easy. The EBIT margin as well as the turnover is 20% below the expectations and the economic forecasts show a rather difficult first quarter. First dismissals increased the tensions among the employees and the Work Council threatened the IFDA management to take action against laying off more staff.

Situation

On January 2nd of this year Jordan was sitting in his office in Pucking going over the numbers of the last financial year for the last time. He was quite pleased with himself and his employees because they had made the highest profit since the foundation of the Bikers United Jordan Ltd. The expected sales for the upcoming years also looked pretty amazing on paper. There were already lots of pre-arranged sales for newly launched bikes in the next year. Jordan and his sales people had made quite an effort to push sales in the last year and especially the new KTM 990 SUPER DUKE R was expected to become one of the most successful bikes regarding future sales in Jordan's store.

Suddenly the phone rang and when Jordan picked up he heard the voice of David Robinson, the area sales manager of KTM. He was really pleased to hear from Robinson because of the upcoming sales and also because he was looking forward to the delivery of the first round of bikes in the next week. They had a little chit-chat and wished each other a happy new year but then Robinson came to the point why he was actually calling Jordan. The delivery of the 10 pieces of KTM 990 SUPER DUKE R which Jordan had ordered was going to be delayed by at least two months. Jordan was out of his mind because the buyers of three of the DUKES were already waiting for their bikes and he had no idea how to tell them that they would have to wait for two more months till they would actually get them. He would have to make a lot of concessions and eventually give them a price reduction in order not to lose his customers to his competitors.

After hanging up Jordan immediately got on the phone with his Junior Sales, Manager Karl Malone to explain to him what just happened. They both decided to stay calm until further information could be gathered on the incident. So Jordan called on a KTM dealer in Munich, Germany, who he had got to know at a dealer convention last year, to ask him if KTM had postponed his delivery too. Patrick Ewing who was Head of Sales at the KTM dealer in Munich told him that according to his knowledge everything regarding the delivery should be on time. After that conversation Jordan got even angrier and called on Robinson again to ask him to explain to him why the dealer right next to him will receive his delivery on time but Jordan's would have to wait for two more months. Robinson could only offer the same lame excuse as always when anything like that happened. The dealer in Munich was a single-brand dealer for KTM and Jordan's store was a multi-brand dealer which put him in a weaker position regarding deliveries and everything else. For Jordan this was a pretty poor excuse when it came to delivery incidents like the current one.

Furthermore Robinson tried to explain the reason for the delay in delivery. The reason behind the delay was the missing parts from an Italian supplier for brakes. Robinson argues that KTM has no opportunity to accelerate the delivery process. There was a strike against the change in protection against unfair dismissal of the work force. The employees refused to continue working unless the government decided to rethink this law. Because of that the Italian supplier was not able to deliver the brakes to KTM on time. This was also the reason why KTM was not capable of producing the bikes on time.

After the explanation Jordan tries to steer the conversation back to the preferential treatment of single brand dealers. He tells Robinson that he was talking with a friend who is also a KTM dealer in Munich. Robinson argues that single brand dealers, because of their larger order volume, have a right for the first claim of the new bikes.

Robinson comes to the conclusion that it does not make sense to argue further with Jordan at this stage. He promises to talk with his boss about the issue and to find a suitable solution for all parties. Robinson assures Jordan that he call him back within the next week to talk further about the situation.

Questions

- Which kind of influencing strategies are used by KTM?
- What could be benefits of a single-brand dealership for Jordan?
- What are the benefits of a single-brand dealership for KTM?
- How can Jordan contribute to faster and better delivery to the end-customer?
 - What preventive actions could have been taken by Jordan in order to avoid this situation?
 - What is necessary for Jordan to understand in order to solve such disputes?
- How can Jordan contribute to improving and influencing the relationship with KTM?

Acknowledgement and Intention

The authors would like to thank Rene Lindorfer, Sebastian Groß, Michael Duspiwa, Barbara Ehrenstorfer and Chris Schipper for their generous support.

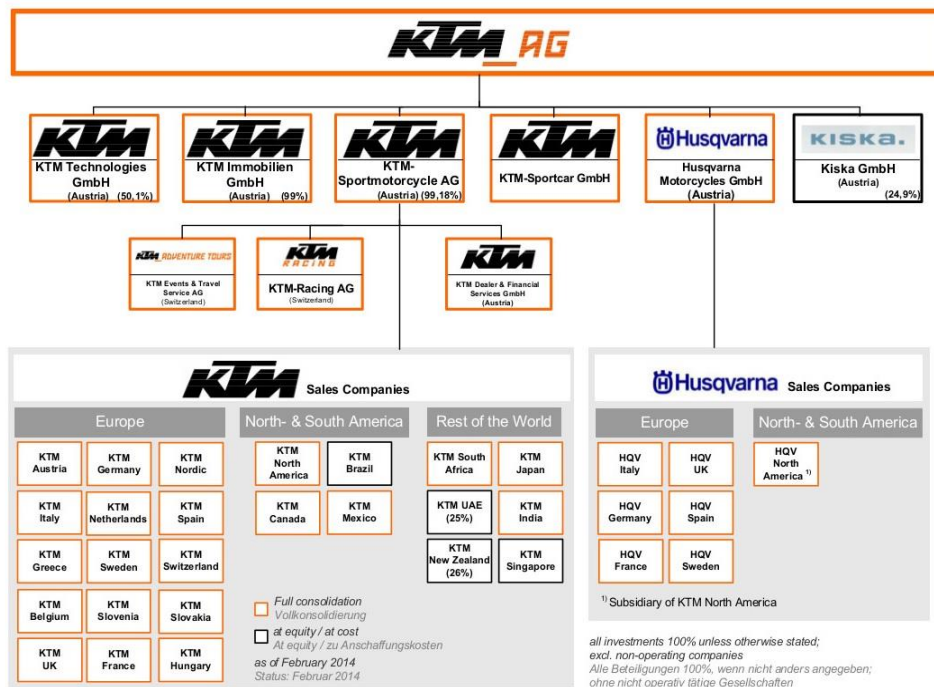
This case is intended to be used as the basis for training or class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Appendix:

TABLE 1: KTM STRUCTURE



SOURCE: <http://company.ktm.com/gb/company/company-structure.html>

Case Study

Sales crisis:

How to connect with existing and prospect customers?

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Abstract

Purpose/Aim – This case study aims at the assessment of possible communication means to communicate with market environment. Participants will know advantages and disadvantages of different media available and be able to choose proper communication means to different objectives. The case study is dedicated to courses in marketing, sales or marketing communication of business programs.

Short summary – Confronting diminishing sales, dealership’s personnel debates on possible changes in marketing communications and its support for sales process. Different options are discussed, from different perspectives, depending on business area within dealership and different approaches to innovation. The students are asked to provide communications plan that would support sales of the company, using new media to generate leads and enhance brand image.

Design/Teaching outline – Depending on the course objectives, the case study can be used in shorter (90 minutes) or longer (2x 90 minutes) form. Shorter form should focus on market communications basics and lead to discussion about possible usage of new media in automotive business. This form is divided into two parts: a case study presentation and students’ work in groups leading to a discussion. Summaries should be provided after each question/section. Second form, longer, should also include video material provided and should result in providing brief communication strategy by students. To answer questions and prepare to discussion students may need additional research about automotive market (depending on the students’ knowledge of automotive business)(both forms).

Further possibilities of application – The case study could be used discussing Integrated Marketing Communications. It can also be a starting point to a discussion about cooperation with external agencies providing professional marketing services. Further enhancement can include marketing research for communication strategies and available metrics.

Background

It was a long decline in sales for a local Chevrolet dealer. “Chevrolet Moto Center” is a dealership located in some European Country⁶. It provides new Chevrolet models as well as used ones, and workshop services. It sells both to individuals and business customers, aiming at providing full satisfaction and professional service. Dealership is owned by a family of Mr. Brown. It started 40 years ago as a small workshop and due to a high quality of work and professional standards transformed in late 90s into a dealership, offering at first an Opel brand, and later shifted to Chevrolet brand. Management structure is simple: owner plays a role of managing director, there is a sales manager responsible for new cars sales, a sales manager responsible for used cars branch, and a sales manager responsible for workshop services management. Each of them works with a small team of sales personnel, supported by a specialist in financial products, such as loans, insurances and leasing. Until recently marketing activities were coordinated by owner’s son, Dominic. It mainly focused on local events, such as “Open Doors” weekends, participation in local moto-shows and rallies – with its own team. Beside events, Dominic coordinated corporate identity programs and BTL advertisement – leaflets, promotion in local press & radio. Other than that, there is a website of a dealership, sharing its offer, contact info, and company’s mission. Of course – Dominic was proud that Ryan Giggs and his teammates from Manchester United wear jerseys with Chevrolet logo on it⁷.

Global trends showed that sales of the brand in Europe dropped by 26% by March 2013⁸. It was a problem not only for GM brands. Its competitors were also in trouble: sales of Toyota decreased by 17%, Ford and Citroen by 16%, Hyundai’s and Renault’s – by 10%. Fiat was still holding on – thanks to the introduction of new 500L minivan, the dramatic drop in sales turned into slight increase.

⁶ Dealership described in this case study is fictitious and any resemblance to existing dealerships is unintended.

⁷ Manchester United is being sponsored by Chevrolet from June 2012.

⁸ All data used In case study is exemplary and do not describe real market conditions

Although dealership could limit its losses by offering workshop services, it could not afford losing sales of new cars. It was necessary to reach to new customers, bond with them and convince to choose Chevrolet brand, and more specifically – to become a customer of “Chevrolet Moto Center”. Number of customers visiting the showroom was steadily decreasing – each one was important.

Problems were rather connected to decreasing buying power of the potential customers than to the lack of support of the manufacturer. In 2012 Chevrolet spent almost 8 million Euro on advertisement, having 4% share in national overall expenditures on advertising of car brands.

Dealership owner, Mr. Brown, observed other local competitors: there were only few left that did not operate in larger networks. His yesterday’s rivals were being acquired by larger players or pushed away from the market by expanding, multibrand dealerships, offering even 10 different brands. Those were selling everything under one dealership brand: from cheap to luxury cars, from smallest A-segment cars like Mini or Fiat Panda, through B-segments Clios and Fiestas, C-segments Octavias, D-Segment Lagunas and Passats, to SUV, executive, luxury, sport and of course utility models.

Mr. Brown understood, that they have to change the way they connect with existing and prospect customers, but did not know how to do it and where to start. He decided, that it would be a good idea to build communications team with Dominic in lead, choosing employees from different business areas in his company. Their customer care experience should be used to develop new marketing communication strategy.

Faction war

There were 6 people attending the meeting called by Mr. Brown: Mr. Brown himself, Dominic, marketing specialist, Mr. Blue, financial services salesman, Mr. Black, service and maintenance manager, and two senior salesmen specializing in new and used cars sales – Mr. Shiny and Mr. Rusty.

Mr. Brown greeted everyone and described the problem. The first to take part in discussion was Mr. Shiny – aggressive, dominating, old-school salesman. He was a role model for the whole sales personnel. He possessed thorough product knowledge, as well as the full assortment of perfected selling techniques, but even he has noticed increasing problems with narrowing flow of new customers.

“It all happens because our mother brand does not support us. We have high sales targets, with limited sales arguments. Our competitors present new models, implement new technologies, supported by global marketing communications, while we are selling cars that are not equally attractive. If we cut the prices, we will have more customers, it is as simple as that.”

Mr. Brown thought about things Mr. Shiny mentioned – what is so different about their competitors? There were certainly things to find out. Why customers prefer them over his company? What the competition do differently in terms of market communications? How their image differs from the one of competitors? Since they were operating just over the red, cutting prices was not the option. Dominic tried marketing approach, asking:

“What do we know about our customers? Why do they come to us in the first place?”

Question was well stated. As it appeared they knew very little. They were meeting a customer when he or she contacted a dealership – either personally or via phone or email. Nobody though registered contact data for later use. Some customer contacts were acquired during different events organized by the company. It was effective before, but now it was just a PR show. When a customer showed interest in a certain model, he or she was served, but was not treated as a prospect until the serious involvement – detailed model choice, price enquiry and financial planning. Better data on customers started to flow after the sale: to maintain guarantee, customer had to visit a workshop to perform maintenance and at the same time providing some information about his driving habits.

“Perhaps there could be a way to reach them before sales... But how can we do that?” asked Mr. Brown. Dominic, great fan of new technologies had some suggestions.

“We could use Internet, social networks and other technologies to get in touch with people that seek new cars. People do not need to come to the showroom to get in touch with us”

“But we already have a webpage, we even present our second-hand cars offer on it” Said Mr. Rusty.

“As far as I know, all our competitors have web pages, they even have Facebook profiles and it does not help them much”

“Perhaps they do not use them right” shrugged Dominic “we need a clear strategy if we consider investing our time in such communication. I believe it can help us. Customers changed considerably over the last 10 years...”

“Certainly, 10 years ago they behaved differently” said Mr. Shiny. “When they were visiting the showroom they asked a lot of questions. As a car salesman I was the most important and reliable source of information to most of them. Now they know more and come prepared – they not only know all about the product, but also about what can they see at our competitors’, about prices, insurances and

finance plans. And I don't know how, but they seem to know what other people say about us and it is very difficult for me to use my skills to close deals."

Mr. Black was not a talkative type. He was a simple, hardworking mechanic, which became a workshop manager after many years of fixing cars. Listening to Mr. Shiny made him uneasy. All those people having car problems or not being served properly later blamed the whole company, especially workshop. Perhaps there could be a way to prevent it?

"If we had access to what they are saying behind our backs we could straighten things a little" said Mr. Black. "If they have any problems with their cars we could advise them or invite them to our workshop to fix it. We would be good guys then."

Mr. Brown sat in silence. Dominic and Shiny were right, people changed. It would be good to know where people get information from. Black was right too – customers will rather share their opinion on some internet forum, and not with people that have lost their trust. How could it be changed? How could his company adopt better to those changes? How could they be used to their advantage? They could probably employ some young kid after collage to run this internet communication, but they have to know what exactly he was to do. But does he have to change anything? It could be only a fashion that will pass... And it cannot have such an influence on all his customers...

"It is impossible Dominic, there is so much information in the Internet that it is impossible to distinguish ourselves without a huge investment in technology. I don't see how we could go around it..."

"And it is just a temporary thing" added Mr. Shiny "and applies only to young people – they are not our customers anyway"

"We do not need expensive technology! All we need is an idea, structured plan, and someone to manage it. Perhaps the biggest expense will bear getting in touch with people that can vouch for us and share their expertise regarding our offer" answered Dominic. "With right tools we can reach any customer we are interested in Mr. Shiny"

"I could provide useful tips for Chevrolet owners" unexpectedly said Mr. Black. "I think I could make them believe we are their friends"

It never worked that way, Mr. Brown thought. But seeing his profits go down, he was looking for different approaches. If Dominic and Black believed they would change something – he was not to stop them. But, he wanted to know what they will do.

The plan

Next day Dominic met with Mr. Black. He had already brief structure of strategy in mind and he wanted to discuss it with his ally. He knew that there is number of tools available to connect to his customers. Monitoring competitors he found out, that they are using Facebook to present the showrooms, models and special offers, Instagram to share photos, YouTube and blogs to provide service tips. He saw also that some of the dealers' personnel take part in discussion for a regarding the brands they sell. His plan also involved different media, but he knew that there has to be a clear message that can be used in all of them in coherent way, a strategy with clear objectives. All available new media offered different ways to do that. Dominic assumed two main objectives:

1. To generate leads, that could be used to prepare individualized offers
2. To develop partner relations with the audience
3. To generate buzz and ensure visibility/awareness of the brand

During the meeting they decided to keep it simple - plan should cover following activities:

1. Facebook fanpage management
2. Blog and/or video blog regarding mechanical tips
3. Sales Microblogging service, focusing on promotions and novelties at "Chevrolet Motor Center"
4. Search Engine Optimization (SEO) for company's webpage

Dominic and Black decided, that they need to change the type of relationship the company has with its customers – from one-way communication promoting sales, to two-way support communication, aimed at solving problems and helping both customers and non-customers with their problems. The idea was to engage them all in dialogue and generate positive experiences. They needed also someone to represent the company and be reliable for the audience in the Internet. It should be someone unbiased, whose opinion would matter to the public...

It was a lot of work ahead of them all...

Questions

- What examples of automotive dealers using new-media you can point? How are new media being used?
- What are the main differences between blogs, microblogs and Facebook fanpages? What are the advantages and disadvantages of each tool?
- How employees from different teams can support new-media communications?
- What promotional arguments could they use to promote “Chevrolet Moto Center”?
- What measurable objectives could be set for new media?
- What groups could be targeted by social networks, microblogs and other internet services?
- What information should be provided via new media?
- How the information should vary depending on the media used?
- Are there any other internet tools that could be used to ensure visibility of “Chevrolet Moto Center”?
- How different new-media tools should interact in a media-mix to support sales and brand management?

Acknowledgement and Intention

The authors would like to thank Jana Šturmová and Pavel Štrach from ŠKODA AUTO University for testing the case study in business courses.

This case is intended to be used as the basis for training or class discussion rather than to illustrate either effective or ineffective handling of a management situation.

Case Study

KTM Sportmotorcycle AG: Customer Profiling in the Motorsports Business

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Abstract

Purpose/Aim – This case study aims at the assessment of customer needs and at gaining customer information (customer identification). Participants will be able to apply the methods of profiling and segmentation of customers in the motorcycle business. The case study is dedicated to courses in marketing, sales or distribution management of business programs.

Short summary – A motorcycle rider turned his passion into his daily job and started working as a dealer for KTM Sportmotorcycles. In the course of a KTM dealer conference he meets some of his fellow colleagues and is starts a discussion about different criteria for identifying the various types of customers and their specific needs. The students are asked to apply these customer profiling methods and to associate specific products to the individual profiles.

Design/Teaching outline – The case study can be used in two units of 90 minutes each. The first unit is divided in a case study presentation with additional material and students` individual work on the tasks (including additional research referring to the motorbike market). In the second session the results of the students and the methodology of customer profiling are presented and discussed. Two approaches can be used: 1) Students answer all problem questions and summarise all at the end or 2) Students answer questions and summarize after each one. Later on a video about customer profiling in the motorsports business can be shown.

Further possibilities of application – In an introduction session the differences between customer segmentation and profiling can be worked out. Methodological aspects, challenges and ethical issues of customer profiling can be discussed before or after working with this case study.

Situation

It was June 10th, the end of this year's Erzberg Rodeo, located in Austria. 1,800 athletes from all over the world were participating in the world's toughest one-day Hard Enduro competition. Among the participants were some of the most respected motorbike brands, such as Yamaha, Honda, Kawasaki, Suzuki, and Austria's own brand, KTM.

“Only one in seven riders make it to the finish line,” says Peter (48), one of the enthusiastic spectators, “the others have to go home with nothing more to show than a smashed bike and body.”

Peter is not only a private supporter of motorsports, but also turned his passion into his daily job: he works as a dealer for KTM. Based in Mattighofen (Upper Austria), KTM-Sportmotorcycle AG produces and develops race-ready off-road and street motorcycles, as well as ATVs (all-terrain vehicle, also known as quads). As the world leader in the off-road segment, KTM began developing and producing street motorcycles in 1994 as well. Racing has always been at the heart of the market as demonstrated impressively by more than 200 world championship titles. It provides the ideal environment for testing and refining the latest materials and technical developments under the toughest conditions. In accordance with the company philosophy, “Ready to Race”, insights gained in motorsport are fed directly back into series production. KTM products are distributed to around 1,200 independent motorcycle dealers worldwide via 21 sales subsidiaries and two joint-venture companies in Dubai and New Zealand.

One of those independent dealerships is Peter's company. In the course of the Erzberg Rodeo, he meets some of his fellow colleagues at a KTM dealer conference, amongst who is Mike (28), who is thinking about opening a KTM store in Upper Austria. At dinner, the two get into a conversation about the dealership's daily business. Mike is asking Peter for advice and wants to benefit from his experience:

“Peter, what does a typical day at your shop look like?”

“Well... I get a lot of different customers in my store every day looking for different models. As they are already in my store, it is most likely that they will purchase a KTM bike. This makes the decision process easier; however, KTM still offers a broad product range. It is not always easy to find the perfect model for

everybody, but whenever a customer approaches me, I ask him a lot of questions to identify his wants and expectations.”

“Oh, that’s interesting. But... how can you identify a difference between them?”

“It would be easy to segment my customers according to the engine capacity, which is measured in cubic centimeters (cc). As an entry model, a 75–125 cc with economic fuel consumption would be suitable. Starting with 150 cc, customers would get more power and performance, and 600 cc and above are premium motorbikes”, Peter tries to explain. “However, using solely this criterion is not feasible in real life. For example, last time my friends and I were talking about our 600 cc motorbikes. One of my friends uses his bike for commuting to work and rides a BMW Boxer; another colleague however uses his Yamaha Kawasaki Ninja in sport riding, on the racetrack and in the hills – and both bikes have the same engine capacity. Therefore, segmentation according to cc does not make sense as one has to consider a lot more aspects”.

“I see. So... how do you differentiate your customers then? Can there be that many different segments?”

“Well, actually yes. Let me explain by describing some of my customers who visited my store this week. Firstly, there was the sales director, who was around 50 and married. He told me that riding was his hobby, but he prefers to do it mostly in summer. He enjoys the social interaction when going on tours as much as the riding itself. When I asked him about his risk attitude, he told me that he feels personally responsible for avoiding it.”

“And how does it help you to know that he tries to avoid risk?”

“That’s easy. Since I not only sell motorbikes, but also provide insurance, banking and repair services, it is most likely that he will also take out an additional insurance, or buy a new safety helmet.”

“Brilliant! Could you find anything more about the customer?”

“Well... he valued the brand very much, and told me he wanted to buy a new bike rather than a second hand one. He also had a license for all motorcycle types, but he lacked any substantial training. When I showed him the models he was immediately into the bigger touring bikes, but also liked the classic bikes.”

“Interesting. I know a lot of people who are just like this...”

“That’s exactly why I do it. Knowing how to identify different segments is the key to developing a substantial competitive advantage, since different groups of customers can be identified that respond differently from other groups to competitive offerings. I get a feeling for who my customers are, which products they will most likely purchase, and can give them better advice on the models. Thus, it helps me to find the perfect bike for my customers, who are satisfied and become loyal clients – and maybe, they even refer me to their friends and colleagues. Additionally, it helps to create a dominant position within the reduced market space, and competitors won’t be able to attack successfully.”

“I totally see the point why you do it! I should definitely think about that for my store as well... Could you maybe describe some more customers of yours?”

“Of course. You know that KTM is the world leader in the off-road segment, and I get a lot of people that come to my store in order to purchase an off-road bike. Last time I met those two young guys, I think they were around your age, and were very excited about challenging their bikes in the field. Both were very passionate about motorsports, and already had some experience of riding motorbikes. At first, it seemed that both were looking for the same kind of bike, but when I asked them about when and why they want to ride their bikes, I got different answers: the one guy mainly wanted to use the KTM for driving off-road, to get away from the daily routine and streets and enjoy exploring the freedom of the race tracks off-road. The other one, however, also wanted to ride his bike to work. So ideally, it should be a bike that provides him a reliable and dynamic means of transport on the street, but they also want to enjoy the fast paced thrill of riding in a relatively secure environment on existing off-road tracks.”

“So actually they are two totally different types! What about their risk attitude, do you know if they also were similar in this context?”

“Well, the first off-road type seemed to embrace the associated risk, and his motto was “no risk no fun” – taking risks is part of his spirit. Riding a motorbike is not only his hobby, but also his passion. The only obstacle between him and his riding experience are weather conditions. Actually, he already had a KTM motorbike, which he exchanged for a newer model. I also presented him the latest model we had just got; he was very impressed and wanted to try it immediately. He exactly knew what he wanted and expected from the bike, and I was happy to find him the perfect model. Since he only wants to ride his bike off-road, he is dependent on the weather conditions, and he is also not looking for a model that is licensed for the road. The other guy, on the other hand, had an indifferent attitude to risk, he saw it as part of riding, and took active steps to avoid it: I offered him a safety instruction book, and he was happy to buy a helmet and safety gear. And you know what? In the end, it turned out that he preferred a second hand bike, which allows him to follow his occasional hobby at a reasonable price.”

“Oh, interesting. What about women? Do you have a lot of female customers?”

“I would not say I have a lot of female customers, but they are becoming more and more enthusiastic about riding bikes. Of course the customers I just described to you could also have been female, but from my experience, they are typically more risk conscious and expect something different from their bikes. Last time, a

young lady approached me because she wanted to avoid all the disadvantages of driving a car: traffic jams, parking tickets, increasing fuel costs, and other car related factors. I think she wanted to purchase a motorbike in order to be mobile at low costs. I showed her some models that are reliable, comfortable, economical, and fuel efficient. She was happy with the offered quality and the second time she visited my store she brought her son, who was just about to reach the legal age of driving a motorbike. In the end, I could sell them a lower capacity bike and a moped.”

“What a good deal. Does this happen a lot?”

“Unfortunately, not often enough. What I liked a lot about the mother was her sense of responsibility. I experience it a lot that the younger generation does not think a lot about the risks of riding, and thus does not take active steps to manage them. However, they generally show high educability and the mother was very sensitive to risks, she even considered the risks of riding a motorbike as a strong argument against riding. So she pointed out the risks to her son, and he promised he would ride carefully and always wear a helmet and some safety gear.”

“Good kid. Who was the most memorable customer you ever had?”

“Interesting question. Let me think ... I guess one of the most memorable persons that ever came to my store was this posh student from the city. I tried to estimate his age, and I asked him my typical questions in order to identify his wants: is he going on tours, using the bike for urban mobility, racing it on tracks, or wants to challenge the bike off-road? However, he was not really willing to cooperate, and pretty determined to convince me of facts about my bikes he thought he knew better than me. I have a lot of enthusiastic customers, but I never experienced anything like this!”

“Oh my Goodness, what a fanatic.”

“Well, generally it’s not bad being passionate about a bike. Riding is not just a means of transport, it’s a way of living and thinking. I have to admit that at first I thought he really knew a lot about all the bikes, but then it turned out that it was just on the surface and he was just trying to impress me.”

“How can you deal with such a personality?”

“Since I could find out that it was all about showing off for him, I tried to demonstrate my best looking bike models. This guy’s enthusiasm was limitless, he wanted to look cool and express himself. What he expected from a motorbike was fast acceleration, high power and a great sound. He was pretty young, though, so he did not have a full license for riding the really big bikes. In the end, he used his bike for all year round commuting, and being the first with a motorbike in his peer group he really managed to impress his friends.”

“Do you think that he is a risky rider?”

“Well, that’s very likely. I think both his age and his attitude are reflected in his risk behavior, and risk is considered as being part of what makes riding fun. He also told me, that he was “a good rider, so the risk does not apply to me”. Statistically seen, this type of customer has the highest accident rate.”

“What about riding organizations? Do you have customers who belong to any of them?”

“As you know, KTMs are typically not the kind of motorbike you ridden by Hell’s Angels. But of course we have some very passionate riders, who generally have a strong relationship to the bike itself. It’s a way of life and they like to attend organized motorcycle events, and are members of motorcycle fraternities, such as the KTM Club. Every year, this organization has a number of events, and this year, one of my customers was the lucky winner to participate at the KTM meeting “Orange Mountain” in Obertauern (Salzburg). There, he could go on guided tours with new KTM models, participate in a Supermoto-training and in various skill competitions. Since my customer was already retired, he took his big motorbike and drove all the way there. He has been a loyal customer for many years, and he already had a lot of driving experience from his younger years. Now, he rather values comfort, maneuverability and the brand. Also, he is one of my most active customers when it comes to managing risks: he rides his bike responsibly and uses safety gear.”

“So he might want to purchase a helmet or an additional insurance as well?”

“See, you get the point. And indeed, he bought a new helmet this time.”

“Great! And since we are at the Erzberg Rodeo right now, do you some of the spectators will become customers in your shop motivated to purchase one of those fast, fancy racing bikes?”

“I get one of those customers every now and then, since the racing bikes are typically a little more expensive. But to give you an idea: one of the riders who participated in the race today has actually been one of my customers. He always sought power and performance in his bike, and was very passionate about riding. Since it is his job, he also has a very advanced training. It is very important that the acceleration is great, and fuel consumption and comfort only play a minor role.”

“Wow, you have so many different customers. Which bike do you ride personally?”

“Me? Of course I ride a KTM!”

Questions

- Why is it important to consider different customer profiles with different needs and expectations?
- On the basis of which criteria can you identify different motorcycle customer profiles?
- Taking your selected criteria which specific customer profiles can be identified?
- How can the dealer gather and analyze data from existing and potential customers?
- In which type of customer profile would you put the motorbike dealer Peter?
- Associate each of the identified customer profiles with one of the described KTM motorbikes.

Acknowledgement and Intention

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This case is intended to be used as the basis for training or class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Appendix:

TABLE 1:

KTM Motorbike	125 DUKE	690 DUKE R	990 ADVENTURE	990 SM R	690 ENDURO R	1190 RC8 R Track	350 SX-F	
Engine Performance:	11 kW (15 PS)	51.5 kW (70 PS)	84.5 kW (114.9 PS)	85 kW (116 PS)	49 kW (67 PS)	132 kW (179 PS)	37 kW (50.3)	
Engine Design	1-cylinder 4-stroke engine Otto motor	1-cylinder 4-stroke engine Otto motor	2-cylinder 4-stroke engine Otto motor	2-cylinder 4-stroke engine Otto motor	1-cylinder 4-stroke engine Otto motor	2-cylinder 4-stroke engine Otto motor	1-cylinder 4-stroke engine Otto motor	
Weight	127 kg	149.5 kg	209.5 kg	192 kg	138.5 kg	173 kg	104.8 kg	
Starting aid	E- Starter	E- Starter Automatic decompressor	E- Starter	E- Starter	E- Starter Automatic decompressor	E- Starter	E- Starter	
Tank Capacity	11 l	14 l	20 l	15 l	12 l	16.5 l	7.5 l	
Wheelbase	1,367 +/- 15 mm	1,466 +/- 15 mm	1,570 mm	1,505 +/- 15 mm	1,504 +/- 15 mm	1,425 mm	1,495 +/- 10 mm	
Model Characteristics	- Dynamic cornering fun - Low fuel consumption - Easy handling - With ABS	- Low fuel consumption - Dynamic cornering fun - Long distance ability	- All-round ability - Off-road capable - With ABS	- Perfect supermoto ergonomics - Powerful V2 - With ABS - All-round ability	- Off-road qualities - All-round ability - Everyday use, for the city and rural roads	- For racetrack use only - Powerful V2s - Perfect coordination and ergonomics	- Performance of a 450 - Handling of a 250	

SOURCE: KTM Sportmotorcycle

Case Study

Elevating Quality and Results of Used Cars Business

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Abstract

Purpose/Aim – Used cars and motorcycles business has become the core income stream for many small and medium sized dealerships in the European Union during the recent economic downturn. The case study aims at highlighting the importance of additional services as well as some practical challenges which car dealers may encounter when conducting used car business.

Short summary – Mr. Novák is the owner of a mid-sized car dealership. Margins from new car sales deteriorated as a consequence of the recent economic downturn. The number of clients coming to have their cars serviced has decreased as well. Mr. Novák is looking for new business opportunities for his dealership and has been considering to purchase a franchise model for selling used cars in much larger quantities. Franchise-based used cars sales programme has several benefits as well as obstacles to be overcome before signing up. Students are asked to help Mr. Novák to convince his family that franchise used-car programme might a way forward for their family business.

Design/Teaching outline – The case study is intended for a group discussion. It is suited for courses of B2B marketing, sales management or even introductory marketing/sales courses. It does not require much prior theoretical introduction, however it is beneficial to run it with students who have been familiar with following theoretical underpinnings: marketing mix, sales strategy, introductory business economics, augmented product theory. A video supplements the case by visualising common problems with used cars and used car business.

Further possibilities of application – Alternatively, the case might be used on advanced levels of business education in classes where new business opportunities are to be identified. In terms of coverage, the case might be expanded by the asking students to identify other business opportunities, which car dealers might have in case they would like to expand their product and service offerings.

Situation

Mr. Karel Novák is owner of the company AUTOFRIEND, which sells and maintains cars. The company also provides cars for rent, some of these cars are available as standby vehicles for customers in case the repair takes a longer time to finish.

The company worked its way from scratch up to the middle-sized dealership of ŠKODA, Toyota and Citroën brands. The company sells annually altogether 250 new vehicles. Servicing older vehicles of ŠKODA, Toyota and Citroën has also been a profitable business for AUTOFRIEND. Currently, the company has 26 employees. Apart from Mr. Novák, who is the owner and executive manager, the company employs his wife, who is in charge of the Financial department, and his son, who is leading the sales of new vehicles. There are also four members of sales staff (two for ŠKODA brand, one for Citroën and one for Toyota), chief of service car repair shop, one employee responsible for spare parts stock, one seller of second hand vehicles who also manages rental cars service and ten mechanics divided into groups by brand. The six other employees consist of two service advisors for repair registration, two financial department employees and two warehousemen for spare-parts-stock. The company has no marketing specialist. In case of any advertising campaign for its customers, the company uses services of an external agency.

At the moment, the AUTOFRIEND company offers second-hand cars for sale, but this represents just supplementary business. Most of second hand cars are trade-ins supporting the new car business (Customers receive discounts when they leave their older cars with the dealer and the dealer sells them to other second-hand car buyers). Most second hand cars come from the company's loyal customers who bought a new model of some of the presented brands. The company hardly ever performs any service on these older vehicles, the car

just has to be washed and parked next to other second hand cars. The company almost never buys used cars from external market. The financial results of selling second hand cars hardly cover the costs. That was just fine at times, when most profit came from selling brand new cars.

There are a few second hand sellers in the vicinity of AUTOFRIEND who are, in a way, their competitors. On the other hand, none of them is running on a franchise-based-system nor is affiliated with any particular car brand. Other second hand car dealers sell their vehicles mostly “as is”, meaning the condition of those cars can be questioned. Used cars with competitors carry a favourable price tag, and sellers provide very little information about the history of the vehicle. There were local and national media reports about the low quality of the cars sold by second hand sellers in the area. Second hand cars might have their mileage reading artificially reduced, can be older than documents indicate, or can be put together from several different vehicles, even may still belong to leasing companies. The competing second hand sellers are offering cars of various age and technical condition.

Due to financial crisis and the following economic recession, sales of new cars have rapidly dropped. Customers started requesting considerable discounts that resulted in sharp decline of profits at AUTOFRIEND. Yield from the car repair shop were also affected by the crisis. The company has been considering laying off some of its highly qualified and experienced mechanics due to the lack of work. Loyal as well as new customers are now largely looking for cheaper, but still reliable, almost new, second hand vehicles. This new situation led Mr. Novák to consider a franchise for selling second hand cars from one of the brands his company represents.

After a family discussion, Mr. Novák, his wife and son decided, that the company will apply for ŠKODA Plus franchise that is being offered to selected dealerships. Mr. Novák decided to get more information about ŠKODA Plus programme before meeting with his regional manager of ŠKODA AUTO, whose competence is to seal the franchise contract. He visited few of his trade colleagues in other regions of the country, who already are part of the ŠKODA Plus programme. Mr. Novák learned that he will have to invest into facility equipment (e.g. enlarged asphalt lot for displayed vehicles, installation of new items and POS equipment to support the corporate identity) and that running this franchise would also mean additional costs for company like license fee for using ŠKODA Plus brand, internal systems, presentation of second hand vehicles online, compulsory service and maintenance before displaying a vehicle etc. He also learned that the programme that is based on high quality of used cars on offer and integrity of these vehicles. Any franchise used-car dealer has to meet strict quality standards, including thoroughly checking the technical condition of each and every car accepted to the programme, setting the price with specialized software, preparing each car before selling, test drive offer, staff training etc. The manufacturer on a regular basis inspects and visits used-car dealers to make sure, that they are meeting stringent quality criteria. Any participating dealer might be sanctioned for possible failures via cuts of annual financial bonuses.

On the other hand, colleagues of Mr. Novák pointed out the benefits of the programme.

- 1) Average profit margin is higher with second hand cars compared to new cars.
- 2) A dealer who is a part of ŠKODA Plus programme has an opportunity to gain the so-called “young” second hand vehicles from franchise provider (these are mostly ŠKODA AUTO company cars used for marketing purposes). These vehicles yield much higher profit margins. Another source of used cars is auction organised by the financial department of the manufacturer.
- 3) A dealer can provide extended warranty for an extra year and advantageous financing through the Financial service department of the manufacturer.
- 4) There is a mobility warranty for every vehicle sold within the programme (roadside assistance).
- 5) All vehicles in the programme are delivered to customers with accompanying Cebia certificate. The Cebia company is renowned for having expertise in checking for vehicle’s technical condition and integrity. Every car carries assurance that it has not been stolen, the vintage year is corresponding with the cars VIN code and that there were no unauthorized changes made to the vehicle. Colleagues of Mr. Novák valued this particular point as one of the biggest benefits for the customers (as you may see in the accompanying video).

6) The franchise provider supports the programme generally through additional marketing activities, which are accompanied by marketing activities of the dealer in his operational geographical area. The franchise provider also significantly participates in covering the marketing costs for a dealership.

7) The franchise provider promotes all cars in the programme on all significant internet search engines in the country. This widens the range of dealership beyond the borders of his operational geographical area.

Mr. Novák just got back from meeting his colleagues with a head full of new ideas and problems and shared his impression with his wife and son right away. He decided to apply for the ŠKODA Plus programme. He was surprised when his wife was not so sure about his possible decision because, as the head of the Financial department, she saw only additional one time (corporate identity, POS) and operational (SW systems, web presentation of used cars, license fees) costs behind the project. Even his son expressed certain disagreement because he saw that the project might weaken his position in the company as a new person perhaps would have to be named the head of used cars business. Mr. Novák might still be able to convince his family but there were several questions that had to be answered first.

Questions

- 1) How can joining the ŠKODA Plus programme improve on the efficiency of the AUTOFRIEND company?
- 2) What changes of organisation structure has the AUTOFRIEND company have to execute in order to effectively put current staff in use?
- 3) How should be the marketing communication of the AUTOFRIEND company organised in order to make the ŠKODA Plus programme work and what kind of media should the company use?
- 4) Is it in interest of the AUTOFRIEND company to extend the customer database by customers that buy only second hand vehicles? What kind of information should they amass?
- 5) What kinds of problems can the customer encounter at non-brand second hand car seller?

Appendix: Photos of Generic and Certified Used Cars Dealerships



Case Study

Turnaround management in the tractor dealership business in Romania

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Abstract

Purpose/Aim – This case study aims at understanding dealership management in emerging countries which strongly depend on public subsidies. It further shows the effects of poorly conceived incentive systems for the sales force and aspires to understand that sales incentive systems have to be adapted to the different market and economic conditions. The case study is dedicated to courses in marketing, sales or distribution management of business programs.

Short summary – A single-brand tractor dealer faces problems in costs and revenues due to the freezing of EU funds for Romania. The company further suffers from overstock, wrong product-portfolio and a wrongly designed incentive system that decreases motivation and leads to breach of compliance rules and a focus on volume rather than on performance.

Design/Teaching outline – The case study can be used in four standard 45 minutes faculty sessions. In the introduction the case study storyboard is followed by an analysis of the performance issues. Participants will be then invited to read the article of Steenburgh and Ahearne (*Motivating Salespeople: What Really Works*) to gain more details about these issues. In the third session they work out and answer case study questions in groups. Finally, students are asked to present their observations with particular reference to performance improvement opportunities which are then discussed in plenum.

Further possibilities of application - The case study can be extended to the topics of marketing and selling after-sales services or the roles of local sales managers supervising the sales force and incentives systems dedicated to managers.

“EU Commission to withhold development funds from Romania”

What horrible news! The European Commission has identified serious problems in the country's anti-corruption procedures and will henceforth freeze funds of about 500 million euros (\$648 million) of funds originally meant to reimburse part of the costs of economic development and other projects undertaken in Romania.

Karl, senior manager of Agritec CEE still had this horrible newsflash on his mind (see appendix 1) and expected a similar one in the upcoming months when he opened the emergency meeting with his management team in October 2013. He took over the job as European Chief Sales Officer in September 2013 and was confronted with a disastrous gap between the targets given by the Canadian parent company and the business situation in Romania. The freezing of funds in 2012 was also prolonged in 2013 and therefore the farmers dramatically reduced their purchases of new agricultural equipment. However, the headquarters expected a substantial increase in sales as Romania was heavily financially supported by the European Commission and seen as one of the granaries of Europe. The market situation was only one challenge he had identified, there were also serious cost and performance issues. As a consequence Karl called all area sales managers and the Romanian managing director to discuss the problems and take counter measures.

Company Background

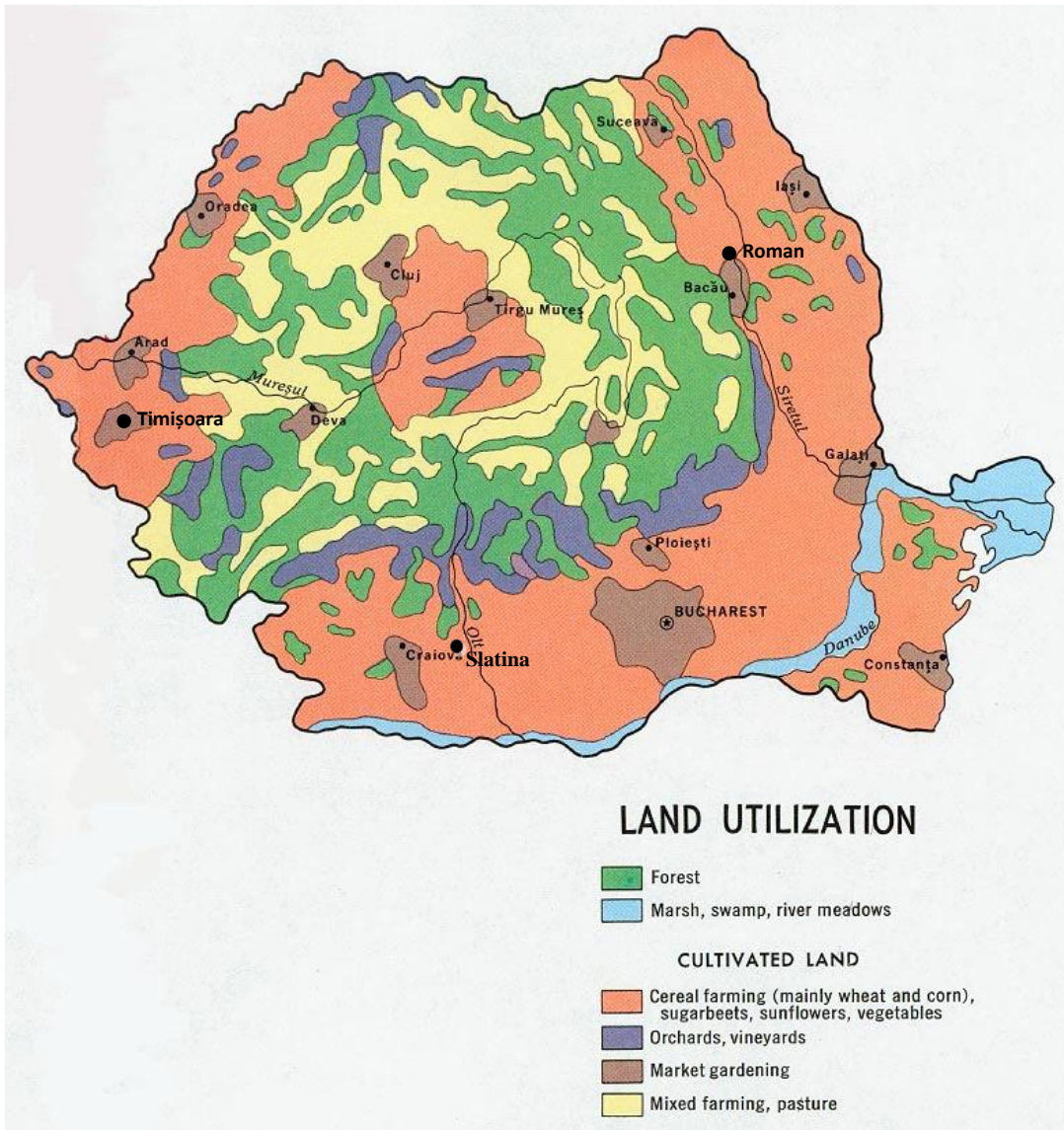
Agritec CEE was founded in 1995 and operated as the European branch of an international agricultural vehicle and machinery dealer. The company was very successful in many Eastern European countries and in 2012 it was awarded the status of preferred Romanian dealer of Locotrac, an international tractor manufacturer. Agritec CEE consequently acquired a local agricultural equipment dealer in Timișoara, set up a subsidiary in Bucharest (Agritec Romania) and developed a demanding business expansion plan together with Locotrac. This growth program consisted of 3 steps: First, to enlarge the location in Timișoara; second, to establish new dealerships in Oradea, Cluj, Roman (as a hub to Moldavia) and Constanța and finally to open up a location in Slatina. In 2013 the expansion in Timișoara and the new enterprises in Oradea, Cluj and Roman were implemented and a contract with a sub-dealer in Slatina was signed as well. However, the business with the sub-dealer did not develop well due to the fact that there was little control over its market activities. Then, the Canadian management board decided to stop further investments until the new locations operated profitably.

The Romanian market

The Romanian agricultural industry has grown strongly in the past few years and became a leading sector in the economy. However, the mechanization is still underdeveloped with one tractor available for approximately every 50 hectares, while the EU average is one for every 12 hectares. Therefore, Romanian agriculture has a high potential for agricultural vehicles also because most existing tractors are aging or obsolete.

Romania has got very large agricultural areas. In the Western part around Timișoara and Oradea, many Italian and Austrian investors cultivate the land. In the Eastern part (Constanța) large farmers and other international investors operate agricultural businesses on vast tracts of land. Southern Romania has a huge agricultural potential as well (see also graph 1).

The farming structure can be divided into 4 groups: Small scale farmers own land up to 500 ha, midsized up to 2,500 ha and large scale farmers up to 10,000 ha. Besides those, there are approximately 10 very large scale farmers who cultivate more than 10,000 ha of land. 80% of these VIFs (very important farmers) are located in Eastern Romania (Constanța) and 20% in Western Romania. Indeed, foreign investors control about 8.5 percent of Romania's farmland, and out of this, almost a quarter is owned by Italians.



Graph 1: Land utilization. Source: U.S. Central Intelligence Agency adapted by the authors

National and international competition in Romania

The competition of Agritec Romania was dominated by international tractor manufacturers and nearly all of them stocked and delivered their products from Russe, Bulgaria, to the various importers. Russe is located 75 km from Bucharest on the Bulgarian-Romanian border, has the biggest port of the country and is an important logistical hub for national and international transport due to its excellent shipping, railway and road infrastructure.

In Romania the strongest brand was John Deere with a market share of about 25% followed by New Holland tractors (20%) which were imported by VA Intertrading and by two “grey importers” delivering their products from Austria, Slovakia and France. Then, 18 international brands followed – among others Claas, Deutz, Landini, Massey Ferguson, Case, Fendt, etc. Their cumulated market share was ~30%. Agritec had a market share of 9% with the brand Locotrac through its first acquisition and expansion activities. Finally, price aggressive importers from China, Belarus and Japan controlled the remaining market share.

The “grey importers” operated successfully because the margins offered by the manufacturers to the importers were comparably low (around 11%) in Romania whereas in other countries like France, the margins reached 16-17%. Due to the low logistics costs – from France to Romania they were only about 0.5-1% of this margin – foreign importers could profitably run their Romanian businesses. Additionally, competition also increased from Hungary or Denmark where the Romanian farmers were able to buy tractors from internet dealers. Despite the increasingly fierce competition, in 2012 Locotrac and Agritec committed themselves to the target of winning at least an additional 5% market share within the next 2 years. However, Agritec’s market share did not increase at all because of market and internal performance reasons.

Importance of public funds in the tractor business

Public funds of the European commission played an important role in the buying behavior of the farmers. Indeed, the public financial support was up to 50% of the purchase price. Hence, the farmers were used to investing and getting a substantial financial payback for their investment in agricultural equipment. In 2012 however, the European Commission froze the payment of these funds because of corruption. This was the first time since the existence of European subsidies in Romania. The result of this stop was that the entire market broke down. Farmers started to hold their investments back because they expected a quick solution to the dispute with the European Union. They increasingly rented tractors, used their existing equipment longer and repaired more often or just did not cultivate the farm land as intensively as before.

Overstock goods of importers

As a result of the changed farmers’ buying behavior the stocks of all importers strongly increased. The importers continued taking delivery of the goods as the European funds though frozen still existed. They expected an unfreezing soon. Some rumours in the market supported this guess, too. Moreover, ordering tractors had to be done up to 6 months beforehand by the farmers and hence, as well by the importer. The assumption of a normalization of the European financial support and a related catch up on the investments farmers had failed to make in 2012 plus the fear of losing market share if goods were not ordered on time led to further similar orders and deliveries of tractors in the beginning of 2013.

The international tractor manufacturers themselves did not recognize the precariousness of the market situation. They calculated the market development by the deliveries into the country (or to Russia) and not by the registration of the vehicles. This however, did not show the real market situation therefore, they did not intervene.

As a consequence the warehouses of the importers were completely filled and the orders were at the same poor level of 2012 in the first two quarters of 2013. Additionally, the farmers also changed to simpler products to realize the necessary replacement investments (e.g. tractors with less horsepower). The market price for big tractors started at €250,000 whereas small tractors were sold at €50,000. This resulted in a change of the required product portfolio but not a relief of the strain in the warehouses as the “wrong” goods had been previously ordered and stored by the importers.

The first importer who reacted to this situation was the one of John Deere Tractors. As being the price-quality leader of the mass producers their tractors were usually 3-4% more expensive than those of Locotrac. Due to the critical market situation the John Deere importer changed strategy and sold off a significant amount of the warehouse stock by unexpectedly reducing pricing in the whole of Romania. The “grey importers” followed this pricing immediately. This finally resulted in disastrous conditions for Agritec Romania: slack and changed demand, low prices and a full stock. Indeed, Agritec Romania had 300 tractors on stock but orders for only 150 smaller tractors in September 2013.

Additionally, the European funds seemed to remain frozen for the rest of the year 2013 and the reform of the CAP (Common Agricultural Policy) meant the danger of losing past unutilised public funds. Besides these macroeconomic difficulties Agritec Romania had severe internal challenges.

Performance challenges of Agritec Romania

At the time of the emergency meeting Agritec Romania had to cope with severe cost and revenue problems. The realized turnover was only €25m despite a planned budget of €50m. The full warehouse and the expected low sales volume required a depreciation of the stock value by €1.5m. Moreover, the staff costs of the sales force

were significantly higher than those of competition because the fixed salary was 20% higher than in competitive enterprises. All these factors and the previously generated expenses through the expansion investments meant that Agritec Romania would make a considerable loss.

Additionally, the commission for sales staff was only 5%, calculated on the basis of the finally achieved margin and paid quarterly. Through the time lag between deal and payment the original impulse to get immediate feedback and be rewarded for results got lost as the rewards were not related any more to the deals or actual performance. Furthermore, Agritec's sales people did not know what margin they reached with their offered prices during negotiations because the information about the real margin was forwarded too late by the controlling department. They had little knowledge about the real costs and margins of all the different tractors and their different accessories and supplementary equipment. The costs of the same tractor type could vary up to 100% depending on how the tractor was equipped. For instance, the purchase price of a typical small tractor ranged from €50,000 to €100,000. This lack of knowledge was a result of the absence of reporting systems and the unchanged management approach of the original dealer. Before the expansion this style was working quite well because the number of tractors sold was limited and sales activities were concentrated on only one point of sale. Due to growth, sales volumes quadrupled and were generated in six locations and the management information system became inadequate.

Moreover, the Romanian managing director focused mainly on sales volume but gave the sales people a severe reprimand in the case of zero or negative margins. This manager did not work accurately enough and therefore had lost the overview of costs and margins. As a result two of the best sales staff had already left the company in 2013. Additionally, the farmers always informed the sales people that the competition was much cheaper, sometimes by even showing them written competitive offers. However, the farmers very often compared dissimilar products and did not calculate total costs of ownership. In order to react to this discrepancy many sales people gave away free accessories and supplementary equipment such as front loaders. Some of these sales staff were even suspected of putting a percentage of the price for accessories in their own pockets after the deal was done with the farmers.

In addition, many sales people tried to secure market share through free-of-charge advance deliveries. This meant that the farmers got the tractors without signing any contract or paying anything – not even a rental fee or any compensation for usage. The farmers guaranteed the sales persons that they would buy the vehicles immediately if the public funds were available again. The managing director accepted this procedure relying on the integrity and loyalty of the customers. However, when later asking some farmers to either pay a rental fee or buy the product they refused this offer and preferred to return the tractors. This reaction was motivated by the fact that agricultural equipment was exhaustively used especially for intensively managed fields and hence the tractor's lifespan was limited to 5-7 years.

First counter measures

Karl had to react to this critical situation of Agritec Romania. He first visited the country, spoke to all sales people and local sales managers and intensively checked all data available. Then, he dismissed the Romanian managing director and promoted a reliable and effective sales manager to this position. In order to get information about the development of the market and the competitive actions faster he decided, along with the new managing director, to employ a trustworthy pensioner in Russe to count the tractors leaving the central warehousing hub to Romania every day. Furthermore, he required the Romanian managing director to provide a continuous reporting of the actual inventory of all assets including an actual valuation of all tractors and equipment. This also increased the awareness of the local sales managers about the costs and kept them more cautious in their purchasing activities. Then, he instructed all sales managers to call back the entire free-of-charge advance deliveries. Finally, Karl introduced a minimum price for all tractors in all variations and for all accessories and equipment offered. This minimum price was also published in an encoded form on the price lists and leaflets. By this means the sales persons were able to know the limits in any negotiation. These minimum prices were calculated so that there was still a certain margin left which later led to a commission for the individual sales person.

Despite some slight improvements through these measures, Karl was convinced that more much effort was needed to realize the turnaround of the Romanian business. Therefore, he looked forward to the upcoming emergency meeting.

The emergency meeting

During the emergency meeting Karl explained again the precariousness of the business situation in Romania and that the business need to be planned with the assumption that EU funds of 2012 and 2013 were lost. Although having certain further ideas in mind he first asked the managing director and the local sales managers about their thoughts on how to get things back on track. As a result of the discussion they identified that a new incentive system could be a sales booster which should be combined with a strict control system so that compliance rules were finally respected. Moreover, Karl introduced the wish of the Canadian management to implement a continuous benchmarking system of the Romanian sales people as well. This point however, was heatedly discussed by his management team. They pointed out that the benchmark alone would be myopic as many sales people need more information and negotiation training enabling them to compare the tractors with the real competitive products and to argue additional benefits such as longer lifespan or lower costs due to low fuel consumption. Karl wondered if he could successfully design a new incentive and benchmarking system knowing that the implementation would not be an easy one.

Questions

- What are the major problems of Agritec Romania?
- What are the pros and cons of a sales staff benchmarking system?
- Which elements are missing in the incentive system compared to the proposal of motivating sales people by Thomas Steenburgh and Michael Ahearne? Identify opportunities for improvement.
- Why do compensation systems based on profit contribution margins often not work?
- Design a draft for an incentive system with its major elements.
- What could be the effects of an incentive system with no-upper limit of earnings for the sales persons? How could you react to possible negative impacts?

Intention

This case is intended to be used as the basis for training or class discussion rather than to illustrate either effective or ineffective handling of a management situation. The authors have disguised most names and identifying information to protect confidentiality.

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Appendix:

Appendix 1: EU Commission to withhold development funds from Romania

BRUSSELS (Reuters) - The European Commission said on Thursday it intended to withhold European Union development funds from Romania, saying it had identified serious problems in the country's anti-corruption procedures.

An EU source said the amount to be withheld was about 500 million euros (\$648 million), funds originally meant to reimburse part of the costs of transport, regional, economic development and environmental projects undertaken in Romania.

The Commission, the EU's executive, said it had also decided to block the bulk of future EU structural funding under three of the four programs because of "serious deficiencies" in Romania's management and control systems.

"The problems lie in the areas of public procurement, sound financial management and in the prevention and detection of fraud and conflicts of interest," the Commission said in a statement.

"The steps taken today are part of a regulated procedure to protect the financial interests of the EU and the way taxpayers' money is used."

Romania, a former Soviet state which joined the EU in 2007, has so far been allotted about 20 billion euros of EU funds to bring its economy and infrastructure up to date.

But the European Commission has grown increasingly concerned about how the funds have been administered and how successfully they are being deployed. It interrupted payments in mid-2011 and has now decided to take similar steps again.

No further payments will be made until Romania remedies the faults, said the Commission, which last audited the payments to Bucharest in June and July of this year.

On Wednesday, Romanian Prime Minister Victor Ponta, speaking ahead of the formal announcement, said the Commission was taking the decision because it judged the country's use of EU funds was too inefficient.

The withheld funds amount to between 10 and 25 percent of total payments to Romania under the four programs, it said.

Five years after joining the EU, Romania has made little progress under a series of short-lived governments in reforming its state-dominated economy and fighting widespread corruption.

Brussels is monitoring its respect for the rule of law and its drive against corruption. Romania remains excluded from the passport-free Schengen area and some EU diplomats believe it and Bulgaria should never have been allowed to join the EU.

(Reporting by Charlie Dunmore; Editing by Rex Merrifield and Alison Williams) Thu, Oct 25 2012

SOURCE: <http://www.reuters.com/article/2012/10/25/us-eu-romania-funds-idUSBRE89O0J820121025>