FUTURE DRIVERS OF THE EU BLOCK EXEMPTION

A Case Study of Automobile Manufacturers’ Strategy Formulation

Veronica Goude and Angelica Wadeborn
ABSTRACT

The need for multinational corporations to constantly adjust to external changes is of primary concern. By the end of 2001, the European Commission will present a proposal for legislative changes in the automobile industry with regard to the block exemption (Regulation 1475/95). The Commission is evaluating future alternatives in which different companies and organizations are involved. The purpose of this thesis is to study how automobile manufacturers could develop their strategy formulation to deal with the expiry of the Regulation. To facilitate our study we have used Mercedes-Benz as a case company. It is vital for the company to involve the internal and external settings and identify the most relevant opportunities and threats to enhance the current strategy. Thereafter, possible scenarios have to be formed in order to create a framework for the future strategy formulation. We have identified several aspects that will be of major importance in any scenario. The involved actors are playing a major role in the network surrounding the Commission, which Mercedes-Benz needs to be a part of. An improved legislative knowledge would diminish the vulnerability for future legislative changes. Moreover, a strong brand, well-established relationships, and efficient dealer networks will be the major sources of competitive advantage in an industry characterized by uncertainty and complexity.

Key words:
Regulation 1475/95 - Involved Actors’ Positions – Situation Analysis - Scenario Planning - Strategy Formulation
ACKNOWLEDGEMENTS

We would like to take the opportunity to express our gratitude to all the people who have contributed to the completion of our thesis.

We are particularly grateful to the associates at the European Commission, ACEA, and CECRA for giving us their valuable time for discussions during our field study in Brussels. Through the cooperation and participation from Mercedes-Benz’s Stig Larsson, Anders Langetoft, and Jens Stener, this study was made possible. Additionally, we express our appreciation to Björn Forssell at MRF and Mats Mattsson at BIL Sweden.

We would also like to thank our supervisors Professor Claes-Göran Alvstam and Professor Sten Söderman. Their insightful comments and valuable advice have helped us a great deal in the process of writing this thesis. Moreover, we highly appreciate the opportunity of undertaking field studies in order to attain a realistic view of the market conditions.

We wish to thank our friends and families for constant support and encouragement, you have all been great! Finally, we thank each other for the good support and cooperation throughout the study.

Göteborg, December 10, 2001

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“Strategy is the great work of the organization. In situations of life or death, it is the Tao of survival or extinction. Its study cannot be neglected”

Sun Tzu, The Art of War

Part I functions as the foundation of this study and involves the introduction, methodology, and theoretical framework. The introduction gives the reader a presentation of the subject as well as the research problems. The methodology describes how the study has been conducted. Finally, the theoretical framework illustrates the selected theories facilitating the research and study.
1 INTRODUCTION

This chapter involves a presentation of the thesis background and the definition of our research problems. Moreover, the purpose of this study is outlined and the relevant delimitations are explained. To give the reader an overall picture of the selected industry, a brief description of the automobile industry is carried out.

1.1 Research Problem & Background

During the course “International Marketing and Management in the New Europe” Professor Claes-Göran Alvstam introduced us to the procedures and policies of the European Union. We found this area very interesting since the European Union is, and most likely will be in the future, a very influential institution on the business environment and strategic development. One specific area, which called our attention, was the block exemption practices within the automobile industry. This topic is heavily discussed today and the industry is experiencing turbulence with certain policies and practices.

The way multinational corporations are operating and competing with each other is increasingly changing and therefore competition policies need to respond to this changing environment. During the last couple of years, the European Union has aimed to prepare and adapt its competition policies for obtaining a better position to cope with the future social and economic conditions. This process of adapting rules and practices is needed in order to strengthen the competition law and enhance the economic integration and liberalization throughout the EU. The EU aims to increase consumer involvement and obtain more international cooperation in order to integrate the competition policy at all levels in the Member States. The process of adjusting the competition law involves several different industries. One important industry that will experience changes in the legislative framework in the future is the automobile industry. These changes will influence the companies’ strategy formulation as well as the overall industry structure. Besides, it could affect the social and economic climate of the EU in different ways.

In conformity with Article 81(3) of the EC Treaty, it is stated that the restrictions laid down in Article 81(1) may be inapplicable if agreements
involve overall economic advantages that are outweighing disadvantages for competition. Exemptions can either be granted on an individual basis or by a regulation for specific categories. Such a group exemption exists to certain categories of motor vehicle distribution and servicing agreements. *The Block Exemption Regulation 1475/95 (EEC) on motor vehicle distribution and servicing agreements* provides detailed EU competition rules for the automotive industry. It gives the manufacturers the right to sell vehicles selectively and exclusively through tied franchised dealers. This is different from how other goods are sold and distributed throughout Europe. Selectivity means that each manufacturers set their own criteria for the dealers, thereby choosing the best networks for them in order to sell vehicles. Exclusivity means that the manufacturers have the possibility to assign only one dealer for a certain geographical area.

Initially, the Regulation’s objectives involved strengthening dealer independence, providing better access for spare part producers, placing independent repairs in better positions to compete in the after sales market, as well as increasing the goals of the consumers (www.autointell.com, September 5, 2001). The current Regulation expires on September 30, 2002. This could result in different outcomes of the Regulation dealing with an abolition, modification, or extension. Regardless of the result, the consequences will be immense for the industry.

Today’s discussion deals with the issue whether the block exemption practices have prevented the market to function effectively with regard to competition and in the interest of the consumers (European Commission, 2000). Since the formation of the Single Market is one of the cornerstones within the Union, the Commission has realized the importance of evaluating the current Regulation. There are certain aspects, which are of high priority and basis for the discussion and evaluation. The aspects included in this study are competition, distribution system, price issues, and the Internet. Additionally, the balance of power between the manufacturers and the authorized and independent dealers, within the distribution networks, is questioned and discussed. What is interesting to examine is the future direction of the practices. Apart from the Commission, there are many actors that are involved in the process and consequently have an impact on the future proposal. These actors are the European Council for Motor Trades and Repairs (CECRA), the European Consumer Association (BEUC), and the European Automobile Manufacturers’ Association (ACEA).
The expiry of Regulation 1475/95 could mean changes for many different parties and the study could therefore be conducted from several different angles. One possibility could be to concentrate on the different actors that are directly or indirectly engaged in the procedure. Research could be made on how these actors work towards each other and the Commission as well as how they could enhance their positions in order to influence future EU decisions. Related to this focus of investigation is to evaluate the decision-making of the EU with regard to Regulation 1475/95. This option would focus more on the actual decision procedure and it would be from the Commission’s standpoint. The situation could also be evaluated from the perspective of the consumers and it could be of interest since the Commission aims to operate in their interest. The study would focus on how the consumers perceive the current Regulation and suggestions could be given for how they can improve their power to influence EU decisions. Hence, one can argue that the automobile manufacturers and their strategy formulation will be affected the most.

We decided to approach the problem from the manufacturers’ strategic perspective. Regardless of the EU’s future proposal, the impacts of the new Regulation will be enormous for the industry. Our choice was based on our interest in how companies should adapt their strategy formulation in accordance with the legislative changes. Today, the manufacturers’ operations are mainly based on tactics. Hence, if the future situation will require companies to establish new relationships and restructure, it is no longer about tactics. It is about strategy and the manufacturers could come to face a very difficult and uncertain situation. The problem discussion and background have lead us to formulate our main research problem and four sub-problems.

1.2 Problem Definition

Along with the current situation and future uncertainties, companies have to rethink and restructure their strategies and operations. In order to cope with these new conditions, we have formulated the following main research problem:
In order to facilitate our study, we have divided our main research problem into four areas of investigation:

**Main Research Problem:**
How can a Multinational Corporation, within the automobile industry, develop its Strategy Formulation in order to cope with the expiry of the block exemption practices within the European Union?

The competition laws of the European Union represent one of the most important bodies of the competition/antitrust laws in the world. Today, the Commission is trying to make the block exemption practices more suitable to the European market. The impacts on the automobile industry, included in today’s discussion, are primarily the competitive environment, distribution system, the Internet development, as well as price issues.

**Research Problem 1:**
How are the European Union’s block exemption practices formulated and how do they influence the automobile industry’s distribution system?

The distribution of motor vehicles involves several actors. The selected actors that are included in the study are the following: ACEA, CECRA, BEUC, and the European Commission. Although we focus on these four actors, Internet and Supermarket operators will be mentioned to some extent. It is important to consider that all these actors have diverse impacts on the future decisions within the EU. As a result, they are, in various ways, striving for their own interests positioning themselves accordingly.

**Research Problem 2:**
How do the involved actors position themselves with regard to the European Union’s block exemption practices?
A Multinational Corporation is constantly facing changes in its surrounding. It is vital that the company’s overall strategy is consistent with both its internal and external environments. Therefore, car manufacturers have had to adapt their operations and actions accordingly with the situation of the Regulation 1475/95. The car manufacturers have to cope with the challenge of the future block exemption practices in order to follow the industry development.

1.3 Our Research Model

The following figure illustrates how we will reach a final result in solving our main research problem. The four stated Research Problems will function as instruments in order to facilitate the process.
1.4 Purpose

We aim to present and to evaluate how the expiry of the European Union’s current block exemption practices will influence the market actors and how multinational corporations, within the automobile industry, can develop their strategy formulation in accordance with this situation. A description of the characteristics of the Block Exemption Regulation as well as its impacts on the industry’s distribution system will be presented. Our study describes and
explains how the involved actors position themselves in the specific setting. The identified factors, which constitute as our main focus, will be analyzed and linked to the automobile manufacturers’ internal and external environments when dealing with their strategy formulation.

1.5 Delimitations

Since our area of investigation covers a wide-ranging subject, we have made several delimitations. The automobile industry has a specific block exemption, Regulation 1475/95, which expires on September 30, 2002. The Commission is still in the process of determining the future block exemption practices and the regulators will give the decisive announcement no later than December 31, 2001. Therefore, our findings are mainly based on the positions of the involved actors’ as well as our own speculations and assumptions. Our study excludes the issues concerning the supplying function. The aim of our research is to base the analysis on the automobile manufacturers’ strategic perspective, which is linked to the subsequent levels of the distribution system. We have delimited our research to the manufacturers’ strategies and relations to the dealers, consumers, and regulators. Finally, in the creation of our theoretical framework, we have chosen to exclude certain factors, which we believe are not relevant for our final result. One example deals with the networks institutions model where factors such as family and religion have been excluded. Consequently, the complexity of our study has constrained us from using the entire theory models and concepts and we have therefore delimited the research to the most appropriate factors.
1.6 Definitions and Abbreviations

Table 1. Definitions and Abbreviations

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>ACEA</td>
<td>Association des Constructeurs Européens d’Automobiles, the European Automobile Manufacturers’ Association</td>
</tr>
<tr>
<td>Authorized dealer</td>
<td>An undertaking assigned by a manufacturer or with the manufacturer’s approval of distribution and servicing of contract goods</td>
</tr>
<tr>
<td>BEUC</td>
<td>Bureau Européen des Unions des Consommateurs, the European Consumer Association</td>
</tr>
<tr>
<td>Black clauses</td>
<td>Sections that cannot be used in a distribution agreement making the Regulation inapplicable</td>
</tr>
<tr>
<td>Black practices</td>
<td>Operations that leads to the automatic loss of the exemption if committed systematically or repeatedly</td>
</tr>
<tr>
<td>CECRA</td>
<td>Conseil Européen du Commerce et de la Réparation Automobiles, the European Council of Motor Trades and Repairs</td>
</tr>
<tr>
<td>Cross border sales/Parallel import</td>
<td>The automobile sales by a dealer to an end consumer that lives in another member state</td>
</tr>
<tr>
<td>Exclusive distribution</td>
<td>Each manufacturer is able to appoint only one dealer for a specific geographically limited territory</td>
</tr>
<tr>
<td>Independent dealer</td>
<td>An undertaking that sells automobiles, which does not belong to the network of a motor vehicle manufacturer</td>
</tr>
<tr>
<td>Independent repairer</td>
<td>An undertaking that offers automobile maintenance and repair services, which does not belong to a network</td>
</tr>
<tr>
<td>Intermediary</td>
<td>A service provider that acts on account of a purchaser and end-user</td>
</tr>
<tr>
<td>Inter-brand competition</td>
<td>Competition between manufacturers of different brands</td>
</tr>
<tr>
<td>Intra-brand competition</td>
<td>Competition between different dealers of the same brand</td>
</tr>
<tr>
<td>Lean distribution/Lean supply chains</td>
<td>A system that enables manufacturers to build cars according to the consumers’ specifications in order to reduce inefficiencies</td>
</tr>
<tr>
<td>Selective distribution</td>
<td>Each manufacturer is able to set the qualitative and quantitative criteria for the selection of its distribution</td>
</tr>
<tr>
<td>Scenario planning</td>
<td>A process where predictions and assumptions are given for how the future might unfold in order to use them to formulate future strategic directions.</td>
</tr>
<tr>
<td>Strategy formulation</td>
<td>Involves the planning mechanism, which determines the purpose and direction of the company</td>
</tr>
<tr>
<td>Spare parts</td>
<td>The Regulation states: “spare parts are parts which are to be installed in or upon a motor vehicle so as to replace components of that vehicle.”</td>
</tr>
</tbody>
</table>

Source: Own Construction
1.7 Thesis Outline

Figure 2. Thesis Outline

Chapter 1: Introduction
Background and presentation of the problem, purpose, and delimitations

Chapter 2: Methodology
Description of how the study has been conducted

Chapter 3: Theoretical Framework
Theories of competition, institutions, strategy, TOWS and scenario planning

Empirical Study
Chapter 4: The External Environment
Regulation 1475/95 and the involved actors
Chapter 5: Internal Environment
Presentation of Mercedes-Benz

Chapter 6: Analysis
Analysis of the empirical findings

Chapter 7: Conclusions & Recommendations
General conclusion, managerial, and theoretical implications

Chapter 8: Areas For Future Research
Suggestions for additional areas of investigation

Source: Own Construction
1.8 The Global Automobile Industry

Automobile manufacturing is one of the most essential industries in the world and it has a major impact on both the world economy and culture, being a vital source for both employment and transportation. It has an annual turnover of around 4,000 billion SEK (Dagens Nyheter 2, September 10, 2001). The worldwide sales increased to 39 million sold vehicles in 2000, where sales mainly occurred in Western Europe (BIL Sweden, 2001). The sales decreased in Europe by two percent, while it increased in the US by three percent and in Japan by five percent. 58 million automobiles were produced in 2000 worldwide. One third was produced in Western Europe, one third in North America, and one fifth in Japan. In 1999, the three largest manufacturers in the world were General Motors, Ford, and Daimler Chrysler, accounting for a turnover of respectively 126 billion USD, 119 billion USD, and 111 billion USD (www.autoindustry.com, October 15, 2001).

The global market is very saturated, capital intensive, and involves large investments in facilities and equipment. The industry is characterized by overcapacity and many manufacturers are therefore merging with other companies, becoming acquired, or going out of business. Nevertheless, the acquisitions offer both positive and negative impacts on the companies. As the market gets smaller, the acquiring company gets additional production capacity from the acquired company (www.activemedia-guide.com, visited October 11, 2001). All manufacturers are fighting for a smaller share of the operations and they have started to turn towards emerging markets.

The European market is controlled by eight large European groups as well as several Japanese, Korean and minor European suppliers, however the market is rather fragmented. The European market has grown from 13.4 million in 1997 to 15 million by 1999. The reason for this slow growth is, according to some analysts, due to over-capacity (www.bbcnews.com, October 11, 2001). The consequences of the over-capacity have been over-production, which lead to a continuous downward pressure on prices (www.europarl.eu.int/, October 11, 2001). Additional factors causing the slow growth are the increase of interest rates and the high prices of gasoline (ACEA, 2000). Moreover, since the European market is saturated, new car sales replace the old automobiles. Even though there has been a strong growth in the industry, the production has not
increased in Western Europe. However, the capacity to produce has increased, implying that the European automobile industry could produce more than 6 million cars. The automobile trade between the EU and other countries is significant and in 1998 the EU experienced high export surplus of EUR 20.1 billion (European Commission, 2000). Moreover, the industry involves high investment costs, which means that the manufacturers have to run their production facilities without over-capacity in order to make profits. As a result, the car manufacturers in Europe focus on maintaining profitability by entering mergers and acquisitions in a global context (www.bbcnews.com, October 11, 2001). This issue also involves the strong pressure for improved products resulting in increasingly shorter product cycles. Within the EU automobile market the consumers can choose from more than 40 brands representing approximately 250 models. Furthermore, there is an increase of offering “niche” products in order to maintain customer satisfaction.

The European automobile industry is experiencing fierce competition from American and Japanese manufacturers, due to the increased number of new manufacturers in Asia and the Pacific and consequently a rise of the non-European imports. Within the EU market, Germany, France, Spain, and Italy, stand for the largest share of produced automobiles. Between January and May 2001, the six largest manufacturers accounted for approximately 76 percent of the total market share, representing around 20 brand names, see figure 3 (European Commission, 2000).
1.8.1 The European Distribution Structure

The distribution networks of automobiles in Europe involve several different stages. The automobiles can be distributed to the consumers directly by using subsidiaries or indirectly by using dealers as well as a combined system using both subsidiaries and dealers. This is illustrated in figure 4:

Source: EC, 2000, p. 29
In the EU, the distribution of automobiles is based on exclusivity and selectivity. This means that the manufacturers are able to choose the number of actors for distributing automobiles within a given territory as well as to connect importers and dealer networks. For each member country, the manufacturers choose one supplier who sets up individual agreements within its area. The manufacturers mostly own their importers. The dealers usually sell their automobiles to end consumers and to sub-dealers to some extent, while the importers sell the automobiles to dealers. Since the manufacturers use the same standards, the European automobile industry is characterized by almost identical distribution networks, e.g. “cumulative effect.”

The European automobile distribution networks consist of many independent, small and medium-sized dealers. These dealers might have the permission to engage in agreements with sub-dealers. Besides, some manufacturers use subsidiaries for distributing their automobiles. These subsidiaries can get the automobiles directly from the manufacturer and the importer as well as indirectly from a major dealer. Finally, the manufacturers usually have the right to sell directly to certain customer groups. These groups are usually given larger discounts in comparison to the dealers (European Commission, 2000).
2 METHODOLOGY

In this chapter we present the methods and processes we have used throughout the study. The purpose is to explain the reasons for why we have chosen the specific proceedings. We begin by describing the research strategy, case study design, as well as our case company. This is followed by methods of data collection and is complemented by a discussion of the research quality.

2.1 Choice of Perspective

We have chosen to use a company perspective for our thesis given that our purpose is to result in recommended future directions for the car manufacturers. Besides, the study involves other influential actors that contribute to the analysis, which aims to be linked to the car manufacturers. The reason for choosing this perspective is our interest in the manufacturers’ future strategy formulation and development. Our purpose is to investigate how manufacturers can enhance their strategic direction in order to cope with the expiry of the block exemption practices. The companies need to be prepared to adapt their current operations to possible future outcomes.

2.2 Research Strategy & Design

A case study is composed of a separate research strategy that has its own design. Our research design is a realization plan for how to develop and reach the final product. In order to complete a comprehensive research design, there are five key components to take into consideration: the study’s main research problem, its intention, its unit of analysis, the linkage between the data and the main research problem, as well as the criteria for understanding the findings (Yin, 1994). This section covers the areas of qualitative research, case study, and design.

2.2.1 Qualitative Research

There are two ways to conduct research: qualitative and quantitative. The purpose with using a qualitative research approach is to obtain a deep understanding of a specific situation and its interactions from the participants’ perspective (not the researchers’). “Qualitative research is an umbrella concept
covering several forms of inquiry that helps us understand and explain the meaning of social phenomena with as little disruption of the natural setting as possible” (Merriam, 1998, p. 5). The qualitative study is characterized as being oriented towards understanding, describing, and discovering, where the design is flexible and evolving. As a consequence, the result of the study is primarily descriptive.

We have chosen to use a qualitative approach, since it seemed to be the best alternative for our study. In order to solve our main research problem, we need to get a comprehensive understanding of the overall situation concerning the expiry of the block exemption practices. Furthermore, this understanding involves the positions of the influential actors. We are interested to obtain the perspectives of the different parties included in the networks. The intention is not to test the existing theories, but to build up concepts, suggestions, and theories.

Moreover, our sample selection is non-random, purposeful, and small. We have chosen specific interview objects and information sources to suit our study and to generate a deep understanding. Our choice of interview objects has been based on the criteria that the relevant factors of the discussion will form the overall framework of understanding.

2.2.2 Case Study

Yin (1994) identifies five different research methods: experiments, surveys, histories, analysis of archival information, and case study. Our choice of research method is based on the type of research question, the investigator’s control over the actual behavior, and the focus on contemporary as opposed to historical phenomena. According to Yin (Merriam, 1998, p.27): “A case study is an empirical inquiry that investigates a contemporary phenomena within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. Furthermore, a case study is more suitable when “how” and “why” questions are formed, and if there is a limited amount of people that could be interviewed and observed (Yin, 1994). The main benefit with using this research method is that it clarifies and enables the reader to widen his/her perspective and experiences. Furthermore, the method gives a holistic understanding of how people behave and interact in different situations.
However, the situation can be exaggerated leading the reader to wrong conclusions (Merriam, 1998).

A case study seemed to be the most appropriate research design, since our main research problem is formulated as a ”how” question and involves limited interview objects, as well as a restricted amount of time. Our choice is also based on our aim of having a design suited to situations in which it is impossible to separate the involved aspects and actors from their backgrounds. Finally, a case study is appropriate when dealing with processes and we aim to analyze the background, implementation, and effects the block exemption practices have on the involved actors.

2.3 Case Study Design

The general assumption presented by Yin (1994) is that there are four types of case study designs. A major distinction is made between single and multiple case designs in order to address the stated research problems. Furthermore, these two types can take two directions of analysis, either holistic (single unit of analysis) or embedded (multiple units of analysis). The four designs are: single-case (holistic), single-case (embedded), multiple-case (holistic), multiple-case (embedded), see figure 5.

Figure 5. Basic Types of Designs for Case Studies

Source: Yin, 1994, p. 39
The single case design is used when dealing with a case that is exceptional, where the aim is to prove, challenge, or extend existing theories. In accordance with these two criteria, a single-case design seemed to be most appropriate for our research. Thus, our investigation consists of sub-cases and sub-units in order to make the final result possible. The sub-cases constitute of the involved actors and how they position themselves. These will function as tools enabling a comprehensive analysis of our case company and main research problem. Concerning the sub-units, they consist mainly of divisions within the case company, which are essential for the thorough illustration of the company’s organization and operations. Since attention is given to sub-cases and sub-units, the embedded design was more appropriate than the holistic. Our focus is given to specific phenomena related to our case company. Furthermore, the holistic design can result in a limited clear direction and an embedded design can therefore enable us to keep our research on a concrete and focused level.

2.4 The Case Company

2.4.1 Choice

We have selected Mercedes-Benz to be the case company of our investigation. There are mainly three reasons for our choice. First, we thought it would be interesting to investigate an international company, which is not originally established in Sweden. Furthermore, since others have studied the Swedish car manufacturers to a large extent, we thought it would be inspiring to choose this different direction. Second, we wanted to investigate a company with a large European presence and 70 percent of Mercedes-Benz’s total sales takes place in Europe. Finally, Mercedes-Benz is a powerful brand and has an important role in the industry with its leading position.

2.4.2 Approach

Since Mercedes-Benz is a part of the Daimler Chrysler Group, it is important to point out that the whole corporation has a major impact on the company’s internal environment. Consequently, our analysis will to some extent reflect the entire Group. Besides, our interview objects work within Daimler Chrysler’s Scandinavian division and the Scandinavian perspective could to some extent reflect our findings. However, we believe that the overall strategy is present
throughout the entire Group and that it will not have any significant impact on our study’s result. The presentation is based on Grant’s framework of strategy (Grant, 1998). The majority of the theory’s basic elements are included in the description of the internal environment, thus, we have chosen to categorize them based on our own interpretation as well as the relevance for our analysis and conclusions.

2.5 The Possible Scenarios

We have based our results on possible outcomes of the Regulation. Currently, there is an on-going debate about possible changes of the current block exemption, which will contribute to the final proposal presented by the Commission. Consequently, the only possibility for us has been to evaluate different alternatives and choose possible outcomes for our analysis. These scenarios have enabled us to analyze and present future strategic directions, which could become relevant for the car manufacturers and their operations in the EU.

2.6 Scientific Approach

Our study is based on a combination of a deductive and inductive approach, i.e. an abductive approach. Deduction involves developing realistic hypothesis originating from an existing theory, where the result will be reached through a logical thinking process. In comparison, induction is an approach where the final result and conclusions are based on the empirical findings leading to general theories and models (Wiedersheim-Paul & Eriksson, 1991). The theories and the empirical study have continuously been alternated as a part of our scientific approach. The deductive approach was applied primarily in the beginning of our study when the main research problem, along with the sub-problems, was formulated. Furthermore, the theories formed the basis for preparing our interview questions. However, we developed our problem area and realized that we needed additional theories and further elaboration of the existing ones. Consequently, the approach became inductive. A combination of inductive and deductive ways of thinking was more suitable in our analysis and conclusions, since we continuously aimed to connect the theoretical framework with the empirical study.
The scientific approach is also influenced by how the case study strategy is used. The case study can be used to explore, describe, and explain. These approaches are usually not separated and a combination of the three is widely used, since the approaches have different benefits and can enable a better research as well as result (Yin, 1994). First, the exploratory approach was applied mainly in the beginning of our study in order to gain insights about the problem area. Further, this approach has been used to identify and characterize the relevant problem discussion. In order to increase our knowledge and understanding for this subject and problem, we began our research by collecting necessary information.

Second, the empirical framework is mainly descriptive. We aim to describe the case company, the current situation of the block exemption practices, and the positions of the involved in order to be able to analyze and recommend future strategic directions for the car manufacturers. Third, we used an explanatory approach in order to combine our selected theories with the empirical findings. The selected theories function as instruments for explaining how the interrelated elements and actors are impacting the relevant situation. This approach matches with our analysis where the objective is to present conclusions and implications to our main research problem.

2.7 Data Collection

2.7.1 Primary and Secondary Sources

Data collection in a case study enables scope and depth through a holistic approach. According to Merriam (1998), there are three strategies, which usually are involved in data collection of case studies: interviewing, observing, and analyzing documents. However, these three strategies are seldom used equally. One or two methods are usually directing the data collection, while the additional methods have a complementary role in order to make the research comprehensive. Moreover, the data collection consists of primary and secondary data. Merriam (1998, p.122) defines primary sources as “those in which the originator of the document is recounting firsthand experience with the phenomenon of interest,” while secondary sources are data that have been collected earlier for another purpose. We have collected both primary and
secondary data in order to get the information necessary to answer our four research problems, and consequently, our main research problem.

Our primary data consists of interviews. We have conducted both personal in-depth interviews as well as telephone interviews with different institutions and organizations, which have different positions, knowledge, and experience concerning our research area. Our secondary data involves literature, articles, publications, information booklets from the institutions and organizations, and the Internet. These sources function mainly as a base for our theoretical framework and empirical findings. However, the sources have been used to different extent depending on which part of our research that has been treated. The section involving EU’s practices and policies is based mainly on reports and official publications conducted by the Commission. Furthermore, the positions of the actors have, apart from the interviews, mainly been assessed through official reports. The background information regarding our case company has been collected through internal company presentations, annual reports, additional publications, and the Internet. Additionally, our primary data involves observations. Apart from general observations during our in-depth interviews we visited the dealer outlet of Mercedes-Benz in Akalla, which incorporates both sales and service. This in order to create a realistic picture and understand how these outlets are functioning.

2.7.2 Interviews

Interviews can be defined as conversations with intended objectives where the researchers aim to obtain specific information. Merriam (1998) stresses the importance of conducting interviews since this technique reveals aspects and facts we cannot observe directly, such as attitudes, opinions, and intentions. Additionally, interviews are preferable for researchers who are interested in past experiences that are difficult to duplicate and when information from many organizations represent a wide range of views.

The personal interviews constitute our main source. The telephone interviews were mainly conducted due to the advantages of low costs, availability of the interview objects, and savings in time. However, the main disadvantage with this interview method is that you, as a researcher, might fail to notice the
correct atmosphere. These interviews were conducted as open dialogues based on prepared discussion areas.

We have chosen to use personal interviews as our most important source, since it is vital for us to directly observe and obtain a clear picture of the involved actors. Another reason for using personal interviews is that we could acquire and complement the background material. Our personal interviews can be divided into three main areas that follow the research problems: the EU, the influential institutions/organization, and the case company. The interview objects have been selected based on a few criteria: their background, area of expertise, experience, and the interest in contributing their goals and values. Before conducting the personal interviews, the areas for discussion were sent to the interview objects in order for them to make needed preparations. Furthermore, to enhance our understanding of the future Regulation, we prepared a scenario guide (see Appendix 4) involving important factors that could influence the possible scenarios in several ways. This guide functioned as a complementary tool for facilitating our discussions.

Merriam (1998) suggests that there are three types of interviews depending on the researchers’ desired structure: highly structured/standardized, semistructured, and unstructured/informal. We have in our interviews combined a semistructured and unstructured/informal method. The interview methods are considered as conversations with a mix of more or less structured questions as well as flexible and open-ended questions. This choice was made in line with our objective to develop a deep understanding and perspective on the ongoing activities and opinions concerning the block exemption practices. This interview method allowed us to follow up and clarify the uncertainties of the questions asked as well as giving the respondents the possibility of follow-up questions. Consequently, the risk for misunderstanding and misinterpretation was reduced. Since our study involves various actors’ interests and views, this method allowed us to respond to the current situation based on the respondents’ own perspectives.

2.8 Data Analysis

According to Merriam (1998), a case study includes data analysis, which is the procedure of making meaning out of the data. The data analysis involves
several levels. First, the data has to be structured in a topical and chronological order for the study’s description to be arranged in a suitable way. Second, the data needs to be systematically organized into categories, themes, or types. The third level involves making recommendations, modifying models, and/or forming a theory.

After collecting the primary and secondary data, we arranged our empirical findings into a topical order. First, we divided the data into the external and internal environments. Within the external environment, the findings are structured into several factors. These factors are used in order to ensure consistency when describing the positions. The factors we have chosen to include have continuously been important for our discussions of the future Regulation and are important to consider when analyzing the future strategic direction of the case company.

Our analysis is structured in accordance with the empirical study: external environment and internal environment. Additionally, possible scenarios are identified and analyzed. Besides, the analysis follows our own constructed theoretical model, which also involves the situation analysis and strategy formulation. The internal and external environments are analyzed within each scenario in order for us to formulate strategic directions to the company in the various situations. Finally, we draw our conclusions and came up with implications based on the discussion in the analysis. The section involving conclusions and implications begins with a general conclusion followed by managerial and theoretical implications.

2.9 Quality of the Research

The quality of the research is partly determined by the sensitivity and integrity of the researchers and it is important, for both the reader and the researcher, to be aware of presumptions that can affect the final outcome. The researchers also need to consider the different criteria for judging the quality of the study. Merriam (1998) suggests that all research should be ethical and concerned with presenting valid and reliable results. The collection and analysis of the data need to be presented and approached through the key elements of validity and reliability.
2.9.1 Validity

Internal validity concerns how the results of the study relate to reality and relevance. This is facilitated when the researchers, through direct observations and interviews, assemble interpretations of the reality. Consequently, internal validity is a definite strength when reality is viewed in this way (Merriam, 1998). To strengthen the internal validity of our research, we have considered the approaches suggested by Merriam. We used triangulation by having multiple sources of data and we gave the respondents the opportunity to respond to our data and interpretations. We have also continuously discussed and received comments from colleagues as well as made sure that our theoretical direction was clarified already at the beginning of the study. Moreover, we have realized the importance of understanding the involved actors’ perspectives in order to create a framework of the actual setting. Hence, our internal validity is to some extent limited since each interviewed organization represents one position. This creates difficulties because each organization involves many different companies with their own point of view.

External validity concerns to what extent a study’s findings can be applied to other settings. The research strategy of studying a specific case depends on the analytical generalization where the aim is to generalize the findings based on the existing theories (Yin, 1994). We selected a single case since our aim was to understand this specific problem area in depth. Nevertheless, we assumed that generalization was still possible concerning our conclusions and implications in this particular situation. This since the automobile industry consists of car manufacturers that have similar organizations and approaches. In order to generalize, we have provided a thorough description of the range of actors’ interests for the readers to determine to what extent our findings and analysis can be transferred to other comparable companies.

Construct validity refers to whether the researchers have the correct operational measures for the concepts being used (Yin, 1994). In order to ensure construct validity, we have used multiple sources of evidence, which allowed a diverse picture and consequently extensive analysis and conclusions. Our construct validity was improved since we provided the respondents with the areas for discussion to increase their preparations. We used the same areas for discussion for all our interview objects, which proves that our findings can be compared.
Additionally, to develop a chain of evidence, our study is structured around our research problems. Our interview guide (see Appendix 3), theoretical framework, analysis, and conclusions have continuously been derived from these problems. Finally, we believe that we have been treating the findings objectively, even though parts of the analysis are based on speculations. This has enabled us to reach realistic results, since we have no personal interest in reaching a particular outcome.

2.9.2 Reliability

Reliability deals with the extent to whether the result of a study can be replicated and another researcher can come up with the same outcome (Merriam, 1998). This way of measuring the quality of a research is also applicable for internal validity. Furthermore, the reliability of a study needs to be ensured in order to diminish errors and contradictions. We have assured a high level of reliability by making the result consistent with the data collection. Our results are dependable due to the use of multiple methods of data collection as well as the description for how data was collected. To increase the reliability even further, we recorded chosen interviews in order to reduce the risks of missing important data and to be able to concentrate fully on the interviews. In addition, the respondents were given the possibility to read the interview material and give comments on our interpretations. Finally, we asked the respondents to give their view on how the interviews were accomplished with regard to our openness and flexibility. One example of the given comments states:

_I was very impressed by your way of interviewing. One could understand that you were prepared and you knew which questions to ask. As the discussion went on, you allowed me to develop my answers even further and you came with counter-questions that cannot have been prepared. This made the discussion very open and flexible and you complemented each other very well by alternatingly asking questions_

Larsson, October 25, 2001, own translation from Swedish

Throughout our research, we have aimed to prevent any misinterpretations of the collected and verified information. Therefore, we believe that we have not intentionally made any significant mistakes that could have hampered the reliability of our thesis.
2.9.3 Sources of Errors

In general, there are always risks associated with collecting the needed information. When we conducted our interviews we were aware of possible errors. The interviews conducted in Swedish involved the least possible risks since the language is our native language. Thus, risks concerning misinterpretations due to language barriers could have occurred in the rest of the interviews. Moreover, our constructed scenario guide (see Appendix 4), involving significant factors, could have resulted in misinterpretations. However, to avoid this we used the guide as a complementary tool during our interviews, which gave the interview objects the opportunity to ask questions if any uncertainties were identified. Another concern deals with the use of tape recorder. Since we have not used a tape recorder in all interviews, possible errors could exist. The choice of not using a tape recorder was based on the sensitivity and extent of speculations of some interview objects. We finalized our interviews by comparing the notes and discussing the overall understanding of each interview, thereby reducing the amount of misinterpretations. We are of the opinion that we have not made any systematic errors that could have a significant impact on the final result.

2.10 Ethical Issues

Ethical issues in research studies include researchers’ responsibility to their interview objects with regard to data collection and distribution of the findings. The researchers have an obligation to protect the rights of the involved research objects and keep data confidential and not public when needed (Sudman & Blair, 1998). Our aim has been to satisfy and maintain a good relation with the respondents and avoid deceiving them. When we approached our interview objects we stressed the their participation was voluntary and dependent on their interests. We enhanced our ethical responsibility in making it possible for the respondents to comment their own statements, since the open interviews can result in unintentionally revealed information. However, our interview methods involved other risks for the respondents. Since this subject is a delicate matter, we ensured that the respondents’ names were not mentioned in accordance with their preferences. This will, according to us, have no significant impact on the study.
3 THEORETICAL FRAMEWORK

In this chapter, we discuss the theories that constitute as the foundation of our study. The theories are divided into four areas and have been selected with the research problems in mind. The section starts with a presentation of the competition policy theory and is followed by the institutions approach. Thereafter, the tools of strategic management and the concept of scenario planning are clarified.

3.1 Competition Policy

3.1.1 Introduction

An effective market is in need of many buyers and sellers, independent companies aiming for profit maximization, as well as a free movement of products/services and production facilities. Therefore, the formation of a Single Market has, in order to regulate the economic activities within the EU, required a new common legal framework that is superior to national laws. This differentiates the EU from other regions and economic groupings since these other groups have kept their national regulations. However, the translation of EU regulation into national laws has met several obstacles. EU policy has a relatively small impact on the highly local/regional and niche markets since the national competition policy will be in the forefront (Johnson & Turner, 2000). The aim of the competition policy is to enhance the effectiveness of the Single Market by presenting a set of common rules for companies operating within the EU. In general, these rules concern issues such as anti-competitive operations, the utilization of dominant positions, state aid, as well as subsidies and public procurements.

3.1.2 Background of the Competition Policy

In economical terms, competition provides the market with efficiency, creative organizations, lower prices, and technological developments. Consequently, the aim of the EU is to widen the product range, reduce the prices, and increase the competitiveness. Eliminating the barriers for increased competition will make the most efficient use of resources and be more beneficial for both the
companies and the consumers. In order for the European market to operate efficiently there is a need for a competition policy. The improved efficiency is expressed through three factors: the price charged to the consumers, pressure for companies’ cost efficiency, and a larger choice of goods and services (Johnson & Turner, 2000). As a result, the competition policy enables free markets and the companies to be efficient with regard to technology and innovation.

### 3.1.2.1 Free Markets

The argument that the exchange of goods encourages economic growth goes far back. Trade between countries enhances the total productivity and availability since the countries focus on what they do the best. Moreover, free competition promotes efficiency in production and allocation of resources, increased quality, and higher living standards.

The main argument for why national markets should not be protected is that it creates inefficiency. There are also several other reasons. First, protection of new national industries can lead to monopolies that are inefficient. Second, defending employment will most likely not sustain in the long-term and consumers will be forced to pay high prices for inefficient products. Third, with changing external conditions many people argue that it is not in their interest to support large defense budgets. Fourth, it is necessary to determine areas of expansions when supporting industrial developments since it could result in inaccurate allocation of resources. Finally, governments gain support from large national industries in the short-term, but they will most likely experience long-term inefficiency (Welford & Prescott, 1996).

### 3.1.2.2 Technical and Dynamic Efficiency

The theory states that in perfect competition the supply and the demand determine the market, which results in lower prices and a higher level of output. However, restricted competition enables the monopolist to increase its prices. Moreover, there will be no incentives for the company to reduce its costs and to support internal efficiency since its profit already is maximized. In reality, the monopolist might not charge higher prices since this depends on whether the company benefits from economies of scale. Within the EU, the “perfect monopolies” arise from nationalized industries that contribute with
less output, profits, and overcharged products and services. It is therefore important to introduce these companies into a market characterized by a liberalized cross border trade as well as competition concerning prices, product differentiation, and innovation. As new companies are entering the EU market, the demand for each company will be reduced while the price and overall competition will increase. The companies will be forced to reduce their costs and increase the efficiency in order to maximize their profits. In oligopolized markets, companies are most likely entering into agreements with their competitors in order to share output and to avoid competition. These markets are usually characterized by product differentiation rather than price competition. Since these companies limit price competition, the Commission specifies these as harmful to competition and to the Single Market.

Another important aspect with regard to competition is dynamic efficiency, e.g. constant developments of technology and innovation. Dynamic efficiency can be enhanced by improvements in the organizational structure, product techniques, distribution system, and products/services. Competition is necessary since it forces companies to enhance their efficiency and competitive position. Small companies operating in a competitive setting will, therefore, be forced to innovate and develop in order to survive. In contrast, monopolies are not encouraged to innovate since they are able to protect themselves by having patents and enlarging the barriers to entry (Mercado et al, 2001).

The improved efficiency will benefit the companies and the different EU markets in several ways, and consequently the entire economy. First, the consumers will gain from relatively lower prices due to fierce competition. Second, the companies can make use of the pressure for an improved cost efficiency. Third, the enhanced efficiency results in a wider choice of products/services due to the entrance of new players (Johnson, & Turner, 2000).

3.1.3 European Union Competition Policy

The objectives of the EU’s competition policy are to restrict the operations that are most favorable for national levels and to support competition and efficiency that will be most beneficial for the EU as a whole. Consequently, the aim with
this policy is not to protect the companies in Europe. Mercado et al (2001) divide the policy’s intention into the following points:

- To restrict companies from engaging in price fixing, cartels, as well as other concerted anti-competitive operations in order to encourage price competition and to prevent oligopolists to act in quasi-monopolistic ways.
- To control the size of companies entering into mergers and/or acquisitions to make sure that competition is not eliminated and that monopoly is not created.
- To hinder companies from abusing positions of market dominance. This involves separating state-owned monopolies in order to increase the number of players and reduce inefficiency as well as offering lower prices and better products to the consumers.
- To prevent state aid to local companies that have an unfair advantage in comparison to other.

In order to reach its objectives, the EU has to work together with the national competition organizations to ensure that operations preventing the competition are prohibited and to limit the creation of oligopolies. Besides, the EU’s competition policy and actions need to indicate global competition and the necessity of large European companies that operate across the borders (Mercado et al, 2001). Several of the rules stand out more than others and have a large influential role on the European competition. Article 81 and 82 concern anti-competitive operations affecting the EU Member States, where Article 81 focuses on intensive operations between two or more institutions and Article 82 relates to the abusive power of monopoly.

### 3.1.3.1 Restricted Practices (Article 81, ex Article 85)

Article 81 (see Appendix 1) focuses on agreements between companies that restrict competition and engage in anti-competitive actions that effect the trade between the EU member countries. These are actions such as price fixing, the formation of quotas, market sharing between competitors, and other forms of conspiracy. The Article is applicable to both oral and written contracts as well as to horizontal and vertical agreements. However, the agreements that are not perceived as harmful and that would not have a significant impact on the economy can receive a “negative clearance” from the Commission. These agreements are thereby excluded. Furthermore, agreements can be
automatically exempted if they involve principals and commercial institutions and agreements between parent companies and their subsidiaries are exempted as well (Mercado et al, 2001).

Special exemptions might be permitted where the constrained agreements result in certain benefits. The Article identifies four situations. First, when there are improvements in production, distribution, or economic growth. Second, when the consumers receive additional benefits. Third, when agreements result in other benefits. Fourth, when a specific level of competition in an extensive part of the supplied products and/or services is reached (Mercado et al, 2001). In June 2000, the Commission replaced all existing Exemption Regulations, except the Automobile Block Exemption, by one Regulation. This new regulation is called the General (Umbrella) Block Exemption Regulation 2790/1999 and it replaced the Regulations of exclusive distribution (1983/83), exclusive purchasing (1984/83), and franchise agreements (4087/88). The aim of the new regulation is to make the rules less complex and to enable an economic approach. An automatic exemption will be in force when the supplier/buyer has less than 30 percent market share. If the supplier/buyer exceeds the limit of 30 percent, it can require an individual exemption (Kador & Partner, September 5, 2001).

In addition, the second paragraph of Article 81 involves group exemptions that do not demand prior notice to the Commission. These are the following:

- **Specialization agreements** deal with horizontal production agreements, where the involved actors are able to specialize in a specific product or group of products. This allows small and medium sized companies to compete with larger companies since they are able to increase their efficiency while reducing their productions. However, this only applies on small and medium sized companies with a combined market share of twenty percent or a turnover of EUR 500 million (Kador & Partner, September 5, 2001).

- **Exclusive distribution agreements** allow the manufacturers to make restrictions on their sales territory and the competitors’ sales. This enables the promotion of efficiency in distribution and enhancement of unification. However, any activity that limits parallel imports is not applicable to the group exemption. Moreover, these agreements cannot be made between
competing companies and restrictions on prices and consumers are prohibited.

- **Exclusive purchasing agreements** contain resellers that agree to purchase only from one manufacturer. The length of these obligations is restricted to five years and it only applies on products linked to each other. Moreover, exclusive distribution is involved as well. However, this restriction can make it difficult for competitors to enter the market.

- **Patent licensing agreements** can restrict the licensee on the exclusivity and the territorial rights. Access to technologies and market is given to the small companies that do not have any potential to innovate and expand.

- **Research and development agreements** involve competing companies who jointly make use of the technologies. This is permitted as long as the competition in the final market is sustained with regard to consumers.

- **Franchising agreements** deal with licenses with regard to industrial or intellectual property rights. It enables franchisers to build up a wide and consistent distribution network without large investments.

- **Know-how licensing** involves making technology transfer and innovation possible even though territorial limitations can hold back competition (Mercado et al, 2001).

### 3.1.3.2 Dominant Positions (Article 82, ex Article 86)

Article 82 (see Appendix 1) involves protecting the EU market from the abuse of dominant positions. However, the dominant positions are not restricted, but the abuse of such a position takes place if it restricts trade between the member countries. The aim of the article is to protect smaller companies and enable them to compete with larger companies. The EU has set four major principles that determine market dominance. The first factor involves a company’s market share, where more than 40 percent signifies market dominance. Second, the independence of a company from its competitors. Third, the ability to remove competitors. The fourth factor concerns dominant relationships with consumers and suppliers.

### 3.2 The Institutions Approach

The organization and strategy of an MNC are either directly or indirectly influenced by its external environment and the company is normally linked to
this environment by different relationships. Since most MNCs have similar technical and functional skills, the success of a company will be determined by its ability to match its surroundings. Jansson (2000) has developed a new theoretical framework in order to analyze different external environments and connect them to an MNC’s organization and strategy. This new framework is called the Institutions Network Approach. There are three factors that decide an MNC’s competitiveness. First, the functional and technical knowledge. Second, the collected knowledge about the surroundings. Third, the MNC’s ability to match its internal organization to the external settings.

### 3.2.1 Institutions and Networks Defined

Rules, processes, and routines shared by a group are called institutions. North defines institutions as “*the rules of the game in society or as constraints created by humans, which facilitate economic and political interaction*” (Jansson, 2000, chapter 3, p.5). The historical background of these institutions determines a group’s behavior and enlightens the people of what is acceptable. The behavior is repeated, lasting over a long period of time. As a result, when institutions are changing, people’s actions will change as well.

Institutions are characterized by the ability to manage relationships between individuals and groups. Jansson (2000) defines these relationships as networks. An MNC’s internal and external relationships as well as the relations between the different organizations are all under institutional influence. Moreover, Meyer and Scott’s (1983) view networks as: “*Networks operate in institutional sectors characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy from the environment*” (Jansson, 2000, p. 12).

### 3.2.2 The Institutions Networks Model

According to Jansson (2000), the institutions networks model is the basis for analyzing an MNC’s external environment and its relations to different institutions. The MNC is found in the middle, surrounded by the most influential institutions, which are divided into two systems: organizational fields, which influence the company directly, and societal sectors, that have an indirect impact. There is a two-way influence between the MNC and the
organizational fields, while the societal sectors are the only ones with influential impact. The institutions networks model is illustrated in figure 6 below:

Figure 6. The Networks Institutions Model

The environmental analysis can be made from two perspectives: the inside-out and the outside-in perspectives. The inside-out perspective starts with the MNC and moves to the organizational fields followed by the societal sectors. The aim of the approach is to find the external factors that influence the company the most. The factors are divided into two groups: internal and external key factors. The internal factors can be influenced by the MNC, while external key factors cannot. The outside-in perspective starts with the company as well, but moves to the societal sectors and their influence on the organizational fields. This perspective continuous with predictions on how the environment will influence the MNC. The purpose of this approach is to create stability by recognizing and understanding the institutional factors that drive change. However, a combination of the two perspectives is also possible.
Jansson (2000) argues that most environmental analyses only identify and describe the different institutions and rarely continue to explain and predict behavior. However, the major advantages of the institutional approach are the possibility of going deeper into the MNC’s surroundings and to get an understanding of how the environment influences the MNC.

### 3.2.3 Modified Institutions Networks Model

The institutions networks model is viewed from the perspective of our main research problem. In order to solve this problem, the model has been modified to suit our research. The chosen institutions have and will have major influence on the block exemption practices and the situation of the involved actors. With regard to our study, the institutions of most relevance within the organizational fields are product/service markets and government markets. Furthermore, included from the societal sectors are the political system, legal system, and professional and interest associations. Our aim of using this modified model is to facilitate the study dealing with the different roles of the involved actors. Figure 7 below demonstrates our Modified Institutions Networks Model.

Figure 7. Modified Institutions Networks Model

Source: Own construction based on Jansson, 2000, p. 12
Product/Service Markets involve several organizations that share the same behavior, norms, and values. Customers, competitors, intermediaries, and suppliers are examples of these institutions, which will try to operate in accordance to their own interests. The pillars of the EU competition regulations are the Government Market as well as its Political System. The government concerns ministries and authorities that act in a similar way. This will be of relevance when analyzing how the practices have and will be formulated. Within the Legal System, it is important to describe policies and regulations concerning EU’s block exemption practices in relation to the automobile industry. The purpose of this section is to get an understanding of the formal rules of EU’s competition policies. Professional and Interest Associations involve actors that are included in the discussions concerning the block exemption practices, which have either direct or indirect power to influence decisions.

3.3 Tools of Strategy Formulation

The general assumption of many theorists is that when companies are preparing their strategic plans, it is necessary to have knowledge of the link between the external and internal environments. As a result, the analysis of external changes has to be related with the resources and capabilities of the specific company.

3.3.1 Concepts & Methods

Grant’s framework, for developing and appraising business strategy, is viewed as a linkage between four elements: a company’s goals and values, resources and capabilities, structure and management systems, as well as its industry environment, see figure 8. A successful strategy can unify these elements and reach the overall objective accordingly. Furthermore, Grant (1998) points out that the importance for a strategy is to create value for the business in a wide perspective and to meet the demand from its shareholders and the surrounding.
Figure 8. The Basic Framework; Strategy as a Link Between the Firm and its Environment

Although profit is the overall objective, it is important to embody an overall purpose of the business, coming in the form of a vision or a mission. This is important since the vision will provide the direction of the strategy and the organization. Grant (1998) highlights that the specific company needs to have an understanding of the external environment and its impact. Moreover, the competitive situation is vital. The company should analyze the competitors’ behavior and predict their current and future strategies in order to evaluate how they will react to the changes in the industry.

### 3.3.1.1 The Industry Environment

The business environment concerns external factors that have an impact on the company’s strategies and operations. Grant (1998) states that there is a complexity concerning the external environment and that it can be difficult for the companies to monitor them. The company needs a framework and an analysis, in order to indicate the external influences that are of most relevance. The most important category is the customers and the company needs to have good knowledge of its customers’ behavior in order to meet the demanded value. One other aspect is to create and enhance relationships with the company’s most important partners, customers, suppliers, and to some extent competitors. The relationship will enable the parties to solve difficulties
together, exchange information, as well as reduce the amount of uncertainties. There are three factors that determine the profits; the value of the product or service to customers, the intensity of competition, and the relative bargaining power at different levels in the production chain.

As an MNC is located in many diverse countries, the availability of resources differs. The company needs to be not only aware of the industry environment but also of the national surroundings. Porter (Grant, 1998) widens this approach with the understanding of the impact of national conditions on company’s competitive advantage. His analysis is built on three factors. First, the national surrounding plays a major role in influencing the company’s performance and in developing e.g. the identity. Second, in order for the country to maintain a competitive advantage within a specific industry, the firms need to make full use of the resources and capabilities. Finally, the company’s performance is positively affected if the country focuses on dynamic factors such as innovation.

3.3.1.2 Internal Environment

Apart from the fact that the strategy should match a firm’s resources and capabilities with the external environment, it should also relate to the internal environment. Grant’s theory states that the formulation of a strategy must be in line with the company’s goals and values. Furthermore, the strategy should characterize the company’s capabilities instead of on what it wants to achieve. This means evaluating the resources, bringing them together, and creating organizational capabilities. It is thereafter vital to exploit, preserve, and further develop the existing capabilities in order to enable a competitive advantage.

A competitive advantage depends on the company’s ability to respond to external changes. Since the market has become increasingly dynamic, it is essential that the companies adjust their resources and capabilities in order to take part of the industry’s future key success factors. Therefore, the central resource and capability are information and the ability to predict. The company should have “early warning systems,” which are in direct relationships with the customers, the suppliers, and the competitors.
3.3.1.3 TOWS-Matrix

One way of evaluating and preparing for strategic development is to use the TOWS-matrix. This approach demonstrates the relationship between the external and the internal environment, involving strengths, weaknesses, opportunities, and threats. The current and future external environment deals with trends and uncertainties concerning social, economical, political, legal, and geographical factors. Based on the analysis of these settings, the company can develop four strategic options according to the situation, see figure 9.

Figure 9. TOWS-Matrix

![TOWS-Matrix Diagram](source: Own construction based on Dyson & O’Brien, 1998, p. 74)

The first option is the S-O strategy, which purpose is to combine the company’s strengths and the opportunities available. Secondly, the S-T strategy’s aim is to make the most of the company’s strengths in order to minimize the external threats. The third option, the W-O strategy, intends to initiate actions to transform the weaknesses into strengths. Finally, the W-T strategy, which is the least favorable option, aims to look upon the weaknesses in order to minimize the threats’ impact (Dyson & O’Brien, 1998).
3.4 Modeling Uncertainty

3.4.1 Scenario Planning

It [scenario planning] can prepare us in the same way that it prepares corporate executives: it helps us understand the uncertainties that lie before us, and what they might mean. It helps us “rehearse” our responses to those possible futures. And it helps us spot them as they begin to unfold (edie.cprost.sfu.ca, October 16, 2001).

The scenario planning, in accordance with Jansson’s theory, is a method frequently used to predict the future. It presents a possible future outcome that usually acts as a background to new strategic development. Scenarios are normally compared to the company’s strategy based on the fact that the company cannot influence its environment. However, the MNCs could impact the environment and should therefore be taken into consideration. Further, Jansson (2000) states the importance of not making the scenarios too general or too detailed.

According to van der Heijden (1996), scenarios are testing the conditions of the business idea against the company’s environment and strategy development. Furthermore, the company uses scenarios for developing future decisions and actions. In order to construct and learn from scenario planning, the company needs to have a deep understanding of the most important and influential variables. The business environment is complex and the company’s objective is to select the variables that are most relevant in the long run. However, there is a different aim with scenario planning. Scenario planning can determine final decisions and test different strategic options in order to find ways to improve the current strategies. The approach requires that the company shifts its current direction and operations to place the business idea in focus.

Furthermore, this strategic assessment is not simple since the company is dealing with uncertainty in its daily operations. The management of a company is facing the uncertainty in every important decision and needs to understand the underlying assumption of the specific uncertainty. Van der Heijden’s theory implies three types of uncertainties: risks, structural uncertainties, and unknowables. Concerning risks, the company has to find historical patterns and
estimate the possible outcomes from that. There are many companies that are used to operate in uncertain environments and that have developed a framework in order to cope with this kind of situation. Further, regarding the structural uncertainties, the company might find the possible outcome by using cause and effect reasoning. As a result, the company can learn how to see one decision and/or action as a part of a whole framework. Finally, the unknowables are the uncertainties, which the company cannot picture and find possible outcomes for.

Schoemaker (Dyson & O’Brien, 1998) stresses that companies with high uncertainty in relation to the management’s ability to predict will benefit by using scenario planning. The researcher states that many companies have experienced costly surprises in the past and do not perceive and generate new opportunities adequately. This is partly explained by a rather low quality of the strategic thinking, being too routinized and/or bureaucratic behavior. Besides, scenario planning can assist companies in industries that have experienced significant change or are about to, and in that way, position themselves ahead of competition. Moreover, the overall objectives of scenario planning are to stimulate the managerial thinking and to enhance future strategic management. Scenario planning functions as a framework to enlarge and simplify possible outcomes that arise in the environment by recognizing external opportunities and threats. Additionally, this approach functions as a tool to avoid under and overpredictions, since it gives the possibility for a comprehensive view of the situation.

### 3.4.2 The Scenario Process

The purpose of using scenarios is to create a united framework for strategic thinking and incorporate predictions of external changes. There are several important factors to consider and Shoemaker’s recommended scenario process is illustrated below:

**TABLE 2. Shoemaker’s Process for Developing Scenarios**

<table>
<thead>
<tr>
<th>1. Define the Scope:</th>
<th>The time frame and scope of the situation analysis need to be determined.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Identify the Major Stakeholders:</td>
<td>Identify the involved and most influential</td>
</tr>
</tbody>
</table>
3. Identify Basic Trends: Identify the political, economical, societal, technological, legal, and industry trends and their impact on the company’s strategy.

4. Identify Key Uncertainties: Recognize uncertainties with the existing and future relationships.

5. Construct Initial Scenario Themes: Identify positive and negative trends in relation to the company’s strategy.

6. Check for Consistency and Plausibility: Examine the regularity of the trends and scenarios.

7. Develop Learning Scenarios: Identify the most strategically relevant trends and scenarios.

8. Identify Research Needs: Find appropriate resources and capabilities, thereby filling in the gaps.

9. Develop Quantitative Models: Investigate factors that are relevant in the long run.

10. Evolve Toward Decision Scenarios: Test the strategies, which need to cover a wide range of possibilities and function over time.

Source: Own construction based on Dyson & O’Brien, 1998, p. 189ff

The companies that have limited control over their surroundings should incorporate the process illustrated above. “A company cannot change the demographic trend of an aging population, but an industry can change price competition” (Dyson & O’Brien, 1998, p. 199). In order to make full use of scenario planning, a more interactive and dynamic approach is needed. An understanding of the interaction between the different elements, such as drivers of change, key uncertainties, and basic trends, is significant. When operating interactively, a company has to extend the analysis of trends and uncertainties and apply the rules of interaction. The result of applying this approach and using the different elements enables the company to create multiple scenarios, see figure 10.
Schoemaker’s (Dyson & O’Brien, 1998) general assumption of scenario planning is that it gives a picture of possible outcomes. However, it does not necessarily involve specific strategies to deal with them. Consequently, the company needs to incorporate external actors into the strategic development, such as customers, suppliers as well as other influential institutions.
"No company ever stops changing... Each new generation must meet changes – in the automotive market, in the general administration of the enterprise, and in the involvement of the corporation in a changing world. The work of creating goes on."

Alfred P. Sloan, Jr., President of General Motors 1923-1937

Part II involves our empirical findings and includes two settings, the external and internal environments. A multinational corporation is constantly experiencing changes and it is therefore necessary to combine these environments in order to operate successfully.
4 THE EXTERNAL ENVIRONMENT

The first chapter of our empirical findings involves the external environment of our case company. The information has mainly been collected through secondary sources and has been complemented with interviews. The section begins with a presentation of Regulation 1475/95 and is followed by a description of the involved actors’ positions. These actors are the EC, ACEA, BEUC, and CECRA. Each position is categorized into the factors of competition, distribution system, price issues, and the role of the Internet. At the end of each organization’s position, a summary of the main aspects is presented. As a complement to these four actors, the positions of one Internet operator (Virgin Cars) and a supermarket provider (Cardoen) are illustrated in the Appendix 2. This, since the actors are in the initial stage of entering the market.

4.1 The Block Exemption Regulation 1475/95

4.1.1 Introduction

Council Regulation 17 allows the Commission to apply and enforce the competition rules. The Commission has the extensive power to investigate if a violation of Articles 81 and 82 has occurred and it has the right to terminate and, in some situations, impose fines on companies not complying with the law. According to a Commission official, the Commission was required to compose an evaluation report of the Regulation 1475/95 before the end of 2000, presenting results of the Regulation’s functioning since its introduction.

In the issue of evaluating the Regulation 1475/95, DG Competition of the EU Commission is the lead service and will present possible alternatives to the Commission in the end of 2001. There are other Directorate Generals involved in this debate and evaluation, such as DG Health and Consumer Protection, DG Enterprise, and DG Internal Market. They have different interests in this issue and contribute to a valuable dialogue. The DG Health and Consumer Protection represents the European customers, the DG Enterprise focuses on enabling a competitive and dynamic market, and the DG Internal Market operates to ensure that the Single Market functions effectively. Moreover, the Commission involves industry actors to engage in discussions, where the aim is to achieve
an objective perspective, generating a favorable system for all involved parties. The European Parliament (EP) is another body involved in the evaluation process with the possibility to comment on the proposal.

4.1.2 Background

In 1974, the Commission introduced its first exemption decision with regard to motor vehicle distribution and servicing agreements, recognized as the “BMW” case. The decision was intended to give guidelines for the manufacturers’ distribution systems. Hence, the manufacturers still required to have individual exemptions. As a result of many individual notifications, the Commission adopted Regulation 123/85 in order to enhance the legal structure of the automobile industry and to balance the involved parties’ various interests. The Regulation 123/85 came into force on July 1st 1985, involving selective and exclusive distribution and servicing agreements. In 1995, the Commission implemented a modified block exemption, identified as Regulation 1475/95, involving a transition period of one year. The basis for the modification was due to the need of improvements in creating a Single Market and enabling efficient competition (European Commission, 2000).

4.1.3 Objectives and Scope

*The Block Exemption Regulation 1475/95 on motor vehicle distribution and servicing agreements* provides detailed EU competition rules for the automotive industry and is adopted in accordance with in Article 81(3) of the EC Treaty. It gives the manufacturers the right to sell vehicles selectively and exclusively through tied authorized dealers. Since the sales of automobiles differ from how other goods are distributed and sold throughout the Union, and was therefore considered to merit such special regime. The Regulation was originally based on the following three assumptions. First, the competition within the European motor vehicle industry is effective. Second, the automobile dealers have to provide after-sales services. Third, brand specialists are needed for repairing motor vehicles (www.autointell.com, September 4, 2001). Furthermore, there were four major objectives of the Regulation’s formation:

1. To increase the efficiency of the automobile distribution and service to the advantage for the consumers. Moreover, to ensure that intense
competition takes place between the manufacturers as well as within the
distribution systems.

2. Enabling the consumer to benefit from the Single Market by offers
including a wide range of products/services.

3. To strengthen the dealers’ independence as well as their competitiveness.

4. To place the involved parties in a position where they can compete
efficiently in the after-sales market (European Commission, 2000).

The Regulation 1475/95 has, since its introduction, had a lifetime of seven
years and will expire on September 30 2002. The Regulation is applicable to
the distribution of new motor vehicles, which have three or more road wheels
and are intended for use on public roads. The Regulation does not involve used
motor vehicles, agricultural vehicles, motorbikes, as well as the distribution of
replacement parts not linked to the vehicle distribution (DG IV Competition,
1995). The Regulation’s main goal is to enhance a Single Market concerning
geography, products, and competition.

4.1.4 Duration and Termination

An agreement between the manufacturer and the dealer can last for an
indefinite or definite period of time. Concerning definite period agreements, the
minimum length is five years and the parties have to inform each other at least
six months in advance if terminating the agreement. The indefinite period
agreements involve a notification of two years in advance before terminating
the agreement. Further, the Regulation allows early termination in two ways.
First, the manufacturer has the possibility to terminate a contract when the
distribution system needs to be restructured. This enables the manufacturer to
adapt to changes, such as economic progress and competition development.
Second, if one party fails to execute its obligation, the other party can terminate
the agreement. However, the reasons for termination have to be evident and
evaluated by a third party (an expert or arbitrator accepted by the involved
parties) (DG IV Competition, 1995).
### 4.1.5 The Agreement in Practice

#### 4.1.5.1 Manufacturer versus Dealer

The dealer is allowed to sell and invest in brands additional to its major manufacturer within the contract territory. However, the manufacturer can restrict the dealer to separate the sales and overall management in distinct legal entities in order to avoid confusion between brands. Concerning the development of multi-franchising, the Regulation states that the dealer has the freedom to choose if it wants to incorporate several brands into its business. This choice is supposed to occur without any impact of the manufacturer. Furthermore, the dealer is allowed to repair different brands in one workshop, but the manufacturers can restrict the dealers to use technical equipment and employee training for a specific brand. As a result, the dealer might have to employ specific people for a certain brand.

The Regulation implies that the manufacturer and the dealer make an agreement on an annual basis for sales target, stock requirements, and demonstration vehicles, where no party has the final declaration. Hence, the policy forbids any binding of minimum requirements within a short period, since it impedes the advantages of the block exemption. In addition, an authorized dealer is allowed to sell and/or purchase from other dealers within the Community. On the other hand, the manufacturer can restrict the dealer not to sell to a reseller, who is not included in the specific distribution system.

The manufacturers are not allowed to sell products and provide services directly to end consumers in the specific contract territory. Thus, if there is no agreement concerning direct sales to end consumers, the manufacturer can supply the contractual area. Still, the manufacturer cannot require the dealer to limit its customer base within the territory at any time, since this would impede the relationship as well as the dealer’s business (DG IV Competition, 1995).

#### 4.1.5.2 Spare Part Producers, Distributors and Independent Repairers

Dealers have the right to receive spare parts that are excluded from the Regulation, such as oil and other liquids, from any supplier. In order to enhance the effectiveness of the competition of maintenance and repair services, the dealers are free to outsource spare parts that do not compete with those
preferred by the manufacturers. The manufacturer, who aims to ensure safety and consumer satisfaction, can control the quality of these spare parts. This also concerns guarantee and free servicing work, where the dealer has to use the manufacturer’s spare parts. In addition, the manufacturer is not allowed to offer discounts to the dealer, where motor vehicles and spare parts are combined, in order to avoid the dealers becoming dependent on one manufacturer.

4.1.6 After Sales Service and Technical Information

The consumer is entitled to have his car serviced by any party belonging to the distribution network from where it was originally purchased. Therefore, the consumer needs to return to the country where the purchase took place. Besides, the consumer can, in accordance with the Regulation, approach an independent repairer but there is still a risk that the manufacturer can deny guarantee service subsequently. Concerning technical information, the Regulation states that the manufacturer is responsible for making the information available for companies outside the network except for intellectual property rights and secret know-how. This directive is based on the fact that the independents, in comparison to authorized dealers, have not had the same access to technical information.

4.1.7 Advertising and Customer Satisfaction

The Regulation states that consumers should be able to make their own choice of purchase. Consequently, the dealers should have the freedom, with regard to advertising, to approach consumers outside their contract territory with methods such as media, advertisements, and brochures. The freedom does not include personalized advertising, such as direct mail.

One of the key elements of the Regulation is to increase the customers’ choice of products and services. With regard to parallel imports, the consumers have the right to purchase motor vehicles anywhere within the Single Market. A dealer is not allowed to refuse a purchase or increase the price level because the consumer comes from another country. All consumers are supposed to be treated in the same way. Moreover, the manufacturer is not allowed to base the price to a dealer with regard to the destination of the sold vehicle without enough motives. Another important aspect involves pricing and discount
strategies. The dealer has his own policy concerning price and discounts and the manufacturers may give recommendations to it. However, the manufacturer is not allowed to set fixed prices (DG IV Competition, 1995).

4.1.8 Excluded Clauses and Practices

There are clauses and practices that are not included in the Regulation of exclusive and selective distribution agreements. The sections that are not supposed to be used in a distribution contract and that hinder the advantages of the block exemption, are called "black clauses." The “black clauses” are the following five conditions: 1) When both parties entering an agreement are motor vehicle manufacturers. 2) If the contract is extended to products and services other than motor vehicles and spare parts. 3) If the agreement involves responsibilities benefiting the manufacturer or the dealer to larger extent than allowed under the Regulation. 4) If the parties make an agreement, which extends the responsibilities under Regulation 1475/95, which are acceptable under Commission Regulations No 1983/83 and/or No 1984/83. 5) If the manufacturer or supplier changes the contract territory in the distribution and service agreement (DG IV Competition, 1995).

The so called "black practices” also lead to less benefits if applied repeatedly, systematically, and consequently as a part of a strategic plan. The Regulation involves the following five "black practices”. 1) Where one party involved in the marketing channel sets the resale price for vehicles, spare parts, or other contractual products. 2) Where one party involved in the marketing channel directly or indirectly prevent end users, their intermediaries, or authorized dealers, from choosing the preferred location of purchase. 3) Where the manufacturer or the supplier directly or indirectly interferes with its dealers concerning purchasing spare parts of the same quality as from a spare part supplier of their own choice. Further, this also applies where the manufacturer or supplier interferes with spare parts suppliers of equal quality. 4) Where the manufacturer hinders spare part manufacturers from having own logos on components used within the marketing channel. 5) Where the manufacturer does not give independent repairers sufficient technical information without any reason (DG IV Competition, 1995).
4.1.9 Legal Consequences

If the parties involved in a distribution agreement, consent to apply any of the “black clauses,” the rest of the contract will be inapplicable. Consequently, the actions normally permitted by Regulation 1475/95 are no longer exempted and the Commission is empowered to give the parties a fine. However, an agreement containing ”black clauses” might receive individual exemption in an exceptional situation where fines are excluded (DG IV Competition, 1995).

Exclusive and selective distribution agreements, which restrict competition and benefit the actual company, do not apply to the block exemption and are limited to the specific geographical area where the violation took place. If competition is restricted to a wider area, all distribution contracts within the area are influenced as long as the actions continue. Moreover, the dealers are not obliged to follow the manufacturer or importer’s directions if they prove to be responsible for prohibition, even if the dealers agree with them.

As in the case of “black clauses,” the Commission has the possibility and right to fine parties engaged in “black practices.” However, consideration should be taken to the national court in each member state, which can allow directions and award damages when recognizing black clauses and practices. Besides, there are other conditions in which the Commission is able to change the scope and exclude the benefits of the block exemption. The Commission investigates the benefits through an official procedure. Exclusion of the block exemption practices is most common when effective competition is restricted, and where there are differences in price and sales between Member States. Additionally, when the dealers experience unfair prices and sales conditions undertaken by the manufacturers. The Commission has clarified the acceptable price differentials within the Union (DG IV Competition, 1995).
4.2 The Position of the European Commission

The manufacturer is in the back seat of the car and gives instructions to his chauffeur, the dealer, on how to drive down the distribution highway to the consumer, who buys the car...but not always in the fastest, most economic way. All too often the manufacturer appears to instruct the dealer, who should really be the one responsible for driving the car, to do things which are outside the “highway code.”

Mario Monti, EU Commissioner of Competition Policy, May 5, 2000

4.2.1 Introduction

According to the Commission, the Single Market gives companies an opportunity to enter new markets that previously have been regulatory prohibited. In order for this market to function effectively, time and large investments are required. However, it might also involve risks and uncertainties. New agreements and contracts between manufacturers and distributors are also used as an instrument to divide the automobile market and to prevent new players from entering.

The aim of the current Regulation is, according to a competition official, not to force and restrict companies to act in specific ways, but to give inclinations for further operations. Today’s situation is characterized by “straightjacket-effect,” where all companies behave in a similar way creating inflexibility, contradicting the purpose of effective competition. The Commission is of the opinion that the dealers are in a weak position and that they are economically dependent on the manufacturers. Moreover, the consumers do not have the freedom of choice concerning maintenance and repair. The current Regulation allows actions that restrict the competition and that counteract the interest of the consumers. The Commission highlights that they would like to see more multi-franchising as well as a removal of the link between sales and service (Financial Times, September 6, 2001). Hence, possible changes of the existing system will not occur over night. This is illustrated by a competition official: “For each new regulation there is a transition period. The more changes (are) introduced, the longer the transition period will be.” (Financial Times, September 7, 2001).
4.2.2 Competition

The intra-brand competition is, according to one Commission official, not functioning effectively since the manufacturers, in contrast to the dealers, compete on price. The dealers within a network can use several factors to compete with each other. Consumer discounts and benefits are the most significant factors, but they are also able to compete on professional skills, the quality of services, and other services linked to the consumers. However, the dealers are financially restricted since they have obligations of fixed margins and bonuses set by the manufacturers. Several manufacturers also make direct sales to specific consumers. Consequently, the dealers are not able to compete, since the manufacturers can offer products at lower prices. Moreover, the trend towards less dealers and larger contract areas could result in reduced intra-brand competition (European Commission, 2000).

The intra-brand competition between different countries is dependent on the existing price differences and by enhanced transparency, which should encourage consumers to participate in parallel imports. Moreover, although the price differences are the major incentives for parallel imports, there are other factors that play a role in intra-brand competition. These factors concern distribution and transport costs, availability, delivery times, purchasing power, and prices for competing automobiles. However, the Commission argues that the competition is limited under the current regulation to some extent, since it restricts personalized advertising outside a specific territory and selling to resellers not belonging to the network (European Commission, 2000).

The Commission states that the inter-brand competition within the EU is effective. This can be illustrated by the differences in market shares between the Member States and the large amounts the manufacturers spend on promotion. Moreover, the equipment for automobiles have become increasingly complex, while the prices have been reduced. The large manufacturers usually act as price leaders and the smaller companies as price followers. However, new players entering the European market, such as Korean manufacturers, have been setting their prices lower in order to gain market share. The competition for after-sales services is limited as long as the manufacturers’ warranty is valid. The consumers are most likely to return to their dealers in order not to lose their warranty. However, the competition becomes intensified when the
warranty has expired and the consumers can usually choose among three to four types of after sales service providers. Many consumers turn to independent repairers for specific routine work and automobiles are gradually more serviced by independent repairers after three to five years (European Commission, 2000).

4.2.3 Distribution System

The Commission points out that the power between the dealers and manufacturers is unevenly distributed within the distribution network. The dealers’ are economically restricted and they have not had the ability to utilize their rights of the Regulation. The ongoing trend of reducing the amount of dealers has resulted in difficulties since it has become problematic for the dealers to find another automobile manufacturer when the original contract is ended. One assumption made by a Commission official is that the amount of dealers will be reduced by 20-25 percent within five years because of the existing margins. Moreover, the EP’s rapporteur, Christoph Konrad, stresses that the manufacturers recently have made large investments in the companies’ dealer networks, building “sales palaces,” in order to meet the pressure for better sales environments. He believes they need time to change their operations to adjust to the structural changes in the market (European Report, September 12, 2001).

From an economic point of view, the Commission argues that it has been inappropriate for the dealers to offer several brands and multi-franchising is today very rare. Consequently, the benefits of multi-franchising have not been accomplished, such as increased inter-brand competition and enhanced dealer independence (European Commission, 2000). With regard to brand perception, there are no significant differences in consumer preferences between the Member States, since the consumers tend to perceive others based on their own assumption. Thus, there are different preferences in brands between the local markets.

The Commission states that the authorized dealers’ use of non-original spare parts is limited. This is due to the fact that dealers leave out important information concerning the characteristics of the non-original spare parts of similar quality and the consumers therefore perceive the original spare parts as
superior. Furthermore, automobile manufacturers offer volume discounts, set higher margins for the original spare parts, and can terminate the agreements if the dealers use too many non-original spare parts. Besides, the competition is sometimes restricted since the independent repairers are not able to buy the spare parts at the same price levels as the authorized dealers and they have a limited access of technical information as well. This is even more important since the automobiles are increasingly complex and the information is necessary in order to repair and maintain vehicles. Many independent repairs are facing difficulties in obtaining information mainly due to practical and economic factors (European Commission, 2000). The information is often presented in packages and has to be, according to a Commission official, complemented with training in order to be applied.

### 4.2.3.1 Parallel Imports

The Commission states that some parallel imports exist, but that consumers are encountering problems when trying to purchase an automobile in another country, especially in the areas that are located close to the borders of countries with high prices. One reason can be the unwillingness of parallel imports from the manufacturers and the dealers. There is no evidence of how many consumers that want to benefit from the existing price differences, but have experienced difficulties in trying to find a dealer who is willing to sell an automobile. Besides, almost all manufacturers have not informed their dealers enough and that they have restricted the availability of automobiles for parallel imports (European Commission, 2000). Finally, the significance of this problem is illustrated by the following statement made by the Competition Commissioner Mario Monti: "The monitoring of both new car price differentials and possible obstacles to parallel trade in new cars remain a high priority for the Commission, in particular in view of the current preparation of the future legal framework for car distribution" (EU Institutions Press Releases, July 23, 2001).

### 4.2.3.2 Service

The Commission does not believe that the link between sales and services exists in the same context as it used to do. Therefore, it suggests an approach where the dealers are able to decide what to concentrate on. Automobile manufacturers, importers, and dealers are generally in favor of this link, while
the consumers are of the reverse view. Technical and economic reflections as well as consumer satisfaction are the major factors that need to be taken into consideration for evaluating the link. Along with this, it is indicated that the services provided by the authorized and independent dealers are of similar quality. Therefore, the link between sales and services has partly lost its importance due to technical advancements and limited consumer loyalty. There might still be economic advantages since services usually compensate for less profit in sales.

4.2.3.3 Additional Channels

According to the Commission, supermarkets that would like to act as an agent of a dealer, as a dealer, or as a reseller, will most likely face the same problems as Internet operators. The current regulation is not adjusted for supermarkets to distribute automobiles in competition with the existing distribution methods. The possibility of supermarkets acting as an intermediary via the dealers does not seem to be appropriate. This since automobiles are expensive products and consumers are anticipated to be well-informed and offered after-sales service (European Commission, 2000).

4.2.4 The Role of the Internet

The Commission indicates that the Internet provides the market with new methods of distributing automobiles. Consumers are in general increasingly positive with purchasing products through the Internet and they are already purchasing expensive and complex products, such as financial services and computers. It is questionable whether the Internet can function under the current system. According to one Commission official, the only option under the current Regulation is for the Internet operators to act as intermediaries and alternative ways are needed. The current system is not adjusted to certain new Internet activities since it blocks Internet operators to become dealers or agents if they do not belong to a dealer network. Moreover, the Internet does not consider territorial exclusivity and the Internet providers have so far not been interested in offering services since they do not have the required infrastructure.
4.2.5 Price Issues

According to the Commission, price differences illustrate that different geographical markets still exist and the objective of the Single Market is not reached. The Commission argues that since automobiles are such expensive products, small price differences will have a large economic impact. Price differences have been especially evident in Britain and Ireland, since it can be argued that consumers have been penalized for needing right-hand drive vehicles (Financial Times, September 7, 2001). Within the Euro zone, Germany and Austria are the most expensive markets. In Germany 34 models are approximately 20 percent more expensive than the average European prices (Dagens Nyheter, February 19, 2001).

The Commission argues that the price differences within the EU are above the targets of twelve percent and six percent that were stated in Regulation 123/85 and research shows that prices usually differ by more than 20 percent, in some cases even up to 65 percent. Price differences within the Euro zone can reach 30 percent. The Commission’s regular Car Price Reports have partly improved the transparency and shows that the differences are mainly due to both manufacturers’ pricing strategies and factors outside the actors’ control. High automobile taxes contribute to larger price differences between the Member States. The national automobile taxes vary considerably between the markets as well. In Luxembourg, the VAT is 15 percent while it is 200 percent in Denmark (VAT and specific tax on automobile purchases). Research shows that in those countries where the automobile taxes are high, the net prices of automobiles are in general lower (European Commission, 2000).

One more aspect deals with the fluctuations of exchange rates, which according to the manufacturers, is one of the reasons for the existing differences. However, the Commission indicates that 11 exchange rates are fixed within the EU (excluding Greece) (Financial Times, September 10, 2001). The Regulation states that currency fluctuations do not explain anti-competitive operations with regard to parallel imports. The Commission will consider the existing currency fluctuations before any benefit of the Regulation is removed. Furthermore, there is no connection between the differences in prices and the level of purchasing power in the various countries. For example, Luxembourg is the richest member country, but has the lowest prices on automobiles.
Table 3. A Summary: The European Commission’s Position

- The overall competition is to some extent limited under the current Regulation.
- The dealers have a weak financial position in contrast to the manufacturers.
- The link between sales and services has partly lost its importance.
- The existing price differences illustrate that different geographical markets exist and the objective of the SEM is not reached.
- Today’s consumers are encountering problems with regard to parallel imports.
- It is questionable whether the Internet can function under the current system.

Source: Own Construction

4.3 The Position of the European Automobile Manufacturers’ Association - ACEA

As carmakers, we are saying this system of dealers can be perfected. But, like democracy, it’s the best system we’ve got

Paolo Cantarella, Former President of ACEA, September 6, 2001

4.3.1 Presentation of the Organization

ACEA represents thirteen European automobile, truck, and bus manufacturers.¹ The organization was created because of the importance of EU policies within this industry and its mission is to represent its members within their technological, industrial, and commercial environment. Therefore, it consists of specialist and expert groups/individuals from different member countries, who are constantly updated with relevant EU institutions (www.acea.be, October 16, 2001).

¹ Volvo, Volkswagen AG, Scania AB, Renault SA, PSA Peugeot Citroen, PORSCHE AG, MAN Nutzfahrzeuge AG, General Motors Europe AG, FORD of Europe Inc, Fiat Auto SPA, DaimlerChrysler AG, DAF Trucks NV, BMW AG
4.3.2 Introduction

The selective and exclusive distribution of motor vehicles is, according to ACEA, characterized by high convenience and wide choice. The high accessibility of motor vehicles is mainly carried out through an established dealer network covering a large geographical area. Moreover, the network is uniform with a local, cultural, and legal match for every country with particular features. Concerning wide choice, ACEA argues that the number of brands represented in the EU is higher than in the rest of the world and the number of various models are increasing (ACEA 1, 2001). Furthermore, the automobile industry is one of the most regulated sectors and continuously has to follow many requirements and standards concerning safety and environment. Due to this, qualified service is vital in the long run and it is therefore vital for the manufacturers to have long-term directives and policies. Finally, ACEA’s position can be summarized as reflected in three main aspects. First, the organization points out that the automotive goods are unique and very complex. As an example, a new Volvo car involves 18 incorporated computerized systems. Second, the abolition of the current system would not be appropriate for the automotive distribution. Third, the involved companies in the distribution networks are benefiting from a selective and exclusive system.

4.3.3 Competition

According to ACEA, the European automobile market is fragmented where there are many manufacturers with relatively low market share (10-20 percent). The inter-brand competition is stronger in the EU than in the US and Japan. The top five manufacturers represented 64 percent of new automobile sales in EU in 2000, compared to 84 percent in the US and 85 in Japan (ACEA, September 11, 2001). Also, the system has not prevented non-European actors to enter the market, such as Japanese and Korean manufacturers, which have a market share of approximately 15 percent (ACEA, 2000). Further, the current system has intensified the competition and the manufacturers have enabled intra-brand competition, where the consumers can make their own choice of brand when making a cross-border purchase. The inter-brand competition is as intense as the competition between the same brands (ACEA 2, 2001). This trend has forced the manufacturers to spend more financial resources on marketing activities. Concerning after-sales service, the competition is
concentrated between authorized and independent dealers, where the independent dealers have more than 50 percent of the after-sales market in all major countries except Germany (ACEA, 2000).

Analysts believe that the possible scenarios could affect the car manufacturers differently. Premium brands like Mercedes-Benz and BMW seem to be more prepared due to efficient distribution systems. The situation is different for brands such as Opel, Fiat, and Ford, which are struggling at the moment. Hence, Ford recently bought Europe’s largest independent dealer, KwikFit, which illustrates that their initiatives are coping with the future (Financial Times, September 10, 2001).

### 4.3.4 Distribution System

The manufacturers can benefit from the current system in several ways. The main advantage is the manufacturers’ possibility to have lean production and distribution, which can result in reduced costs and an enhanced consumer focus. The system also allows deeper integration between the manufacturer and the dealer. Considered by ACEA, enhanced lean distribution would enable the parties to save another 5-10 percent of the final cost of the car. In order to appreciate a continued safety and quality of services and products, the close relationship with the dealer enables the manufacturer to have full control over the distribution (ACEA 1, 2001). Greven (November 8, 2001) believes that, in a few years, the number of dealers will be divided by three. With regard to the legal circumstances, the dealers are the weaker part of the distribution network and the Commission aims to enhance the dealers’ positions in a too structural way. Further discussion deals with supply chain efficiency and ACEA indicates that changes are occurring. One example concerns the issue of delivery time. In Germany, automobiles are built on customer orders and the customers are prepared to wait for delivery. However, in most other EU Member States, consumers are unwilling to wait for a long time (ACEA, 2000).

ACEA highlights that the exclusive and selective system gains the stakeholders. There are several gains for the dealers with exclusivity and selectivity. The main advantage is the close relationship between the manufacturer and its dealers. These relationships enable the authorized dealers to obtain training and support from their manufacturer. Additionally, the
authorized dealers have an influential say to affect the manufacturers’ procedures and have the right of veto in some cases. The dealers can also benefit from their limited number of outlets, ensuring a better allocation of resources and return of investment (ACEA 1, 2001).

ACEA points out that, if multi-franchising is carried out unconditionally, it could reduce the consumers’ choice since there is a risk that dealers would select only the best selling models and brands (ACEA, September 11, 2001). The intra-brand competition cannot be more intense than its current condition and brand exclusiveness is beneficial for dealers, consumers, and the brands. Multi-franchising could be interesting for the large dealers, but not for the average European dealers. Offering several brands require heavy investments since the systems are different for every manufacturer. The former president of CECRA used to be the largest dealer in Germany and he stated “I’ll stick with one group, that’s all I need.” He had looked at the American system where one dealer, who offered several brands, had ten computers in his office, one for each company. However, recent development shows that brands belonging to one group could combine the functions of service, logistics, administration, and parts stock (Greven, November 8, 2001).

The independent dealers have access to equivalent technical information, as the authorized dealers, concerning service maintenance or repair. This information is made available for a certain payment after it has been presented to the authorized dealers. However, there is generally a low request for information since the independent repairers’ demand is rather low (ACEA, September 11, 2001).

There are several ways in which the consumers benefit from the current system. During the duration of the Regulation, the average car prices have decreased with approximately 10 percent in real terms adjusted for inflation (ACEA 1, 2001). The consumers can, according to ACEA, benefit from low cost offers due to the low profit margins that the motor vehicle dealers hold in comparison to other retailers (ACEA, 2000). One other benefit is that the system offers a wide choice since each dealer provides full range of products as well as services. With the current system the customers receive qualified service from the authorized dealers as well as from independent service outlets. Finally, the consumers benefit from innovative products.
4.3.4.1 Parallel Imports

ACEA has through own observations made a few remarks on this issue. The organization indicates that there is a need for a 15 percent price difference in order for a parallel import to occur (ACEA, 2000). Parallel imports accounted for 10 percent of total automobile sales in several countries when prices were considerably influenced by currency devaluation (ACEA, September 11, 2001). Manufacturers have made efforts in facilitating parallel import by establishing telephone hot lines, web sites, or contact points. The manufacturers inform their dealers about the regulations and practices concerning this issue and give them the responsibility to decide whether they want to refuse sales to foreign customers. This standpoint can be highlighted by the following statement: “...with a hot model that can easily be sold to local customers, they have every reason to avoid sales to customers they won’t likely see again. In other words, difficulties in cross-border purchases are not always the manufacturers’ fault” (Wall Street Journal Europe, September 24, 1999). It is, according to ACEA, understandable that the dealers choose to refuse parallel imports based on the intention to find and sustain loyal consumers.

4.3.4.2 Service

The link between sales and service is, according to ACEA, needed. Today, the consumers have easy access to timely and high quality service through the developed service network, having an extensive spare parts availability. A less regulated environment would create a concentration on highly profitable routine repairs situated in high-density locations. Because of this, the service providers would risk being located in areas of low population and consequently earn lower profit. Besides, the dealers could decide to specialize and become independent service providers. Many consumers would not be able to invest in these advanced and expensive service providers and therefore the safety and environmental standards could be harmed (ACEA 1, 2001). Moreover, independent dealers might provide as good service as the authorized dealers, but that they have a limited offer. They have decided to offer services that do not require any large investments (Greven, November 8, 2001).
4.3.4.3 Additional Channels

A general assumption of ACEA is that the manufacturers are currently not planning to sell in supermarkets. The organization argues that the purchase of an automobile is unique and does not fit within a supermarket setting. This reasoning can be supported by research that ACEA made in the context of the customers, which shows that they do not prefer to buy automobiles in supermarkets. Further, supermarkets would not provide customized products to the same extent. The supermarkets would order large quantities of standardized automobiles and “push” the consumers to purchase (ACEA, September 11, 2001). Moreover, the supermarkets that are buying cars in large volumes would be able to offer discounted prices. Consequently, it could be more difficult to sell premium segment automobiles from stock and the supermarket would mainly offer low segment cars (Greven, November 8, 2001). In line with this, the Information Manager at Volvo implies that supermarkets will not be able to offer a higher level of service when dealing with complex systems. He states “What looks like a positive competitive situation might not be as preferable for the customer in the long run”2 (Dagens Nyheter 1, September 10, 2001).

4.3.5 Price Issues

The main indicators of the existing price differences within the EU are differences in taxation, exchange rates, purchasing power, and consumer preferences. It continues by saying that the current system has no impact on this matter and these factors are outside the manufacturers’ control. Concerning taxes on automobiles, they vary considerably within the EU and VAT rates range from 15-25 percent (ACEA 2, 2001). Furthermore, ACEA points out that the Commission does comparisons that only concentrate merely on list prices and overlooks the consumer offers, such as cheap financing and individual discounts. Such discounts are estimated to count for 4 to 20 percent (ACEA 1, 2001). An accurate price comparison needs to incorporate factors such as transaction prices, specification differences, residual values, impact of the economic cycle on price, as well as volume and size of each product segment in each market. Comparisons have been made with other sectors of industrial goods and services, which indicates that the price differences within the automobile sector are not unique (Wall Street Journal Europe, September 24,

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2 Translated from Swedish
Moreover, the new cars, which are replacing the old models, are offered to the same price.

### 4.3.6 The Role of the Internet

A general assumption made by ACEA is that the Regulation has not prevented the development of Internet. In comparison to other sectors, the automotive manufacturers have been early in exploiting the opportunities of the Internet. The aim with using the Internet, in B2B, is to reduce costs and to meet the consumers’ demands at a much higher speed. Several manufacturers have already established so called “internet exchanges.” One example is Covisint, which involves Ford, Daimler Chrysler, and General Motors, Renault, Nissan, and Citroen (The Standard, May 18, 2001). The purpose is to create direct communication between suppliers, manufacturers, and dealers, reducing stock levels and delays as well as removing the multistage procedure (Federal Trade Commission, September 11, 2001). Concerning B2C, the Internet today is used to collect information for possible purchases, since many consumers prefer to be physically involved. Many manufacturers have started their own websites where the consumers e.g. are able to build their own personalized cars on-line. Hence, the entry of Internet operators may possibly cause problems if they are selling directly from the manufacturers, since the Internet operators could take advantage of the dealers’ investments at no costs (Greven, November 8, 2001).

Table 4. A Summary: ACEA’s Position

| A selective and exclusive distribution system is beneficial for all stakeholders and an abolition of it would be inappropriate. |
| The existing distribution system is neither the cause of price differentials nor a barrier to parallel import. |
| Automotive goods are distinctive in comparison to other consumer goods. |
| The current distribution system offers benefits to the consumers such as choice, convenience, and low cost through an intense competition. |
| Sales and service should be linked in order to ensure immediate and complete service coverage. |

*Source: Own Construction*
4.4 The Position of the European Consumers’ Organisation – BEUC

The block exemption must be ended as soon as possible and all elements of anti-competitive exclusivity in car distribution remote from the market. Car distribution in the future must be shaped by the market.

Jim Murray, BEUC Director, February 19, 2001

4.4.1 Presentation of the Organization

BEUC is a consumer organization that consists of 32 independent national organizations from 20 European countries. Its activities are financed by its members and funding from the EU budget. BEUC’s mission is to protect the European consumers’ interest in EU’s policy procedures. It aims to maximize the consumers’ benefits of the Single Market as well as to minimize potential harm, especially concerning quality and social and ethical issues. BEUC believes the main consumer rights are: the right to safety, information, choice, representation, equality, education, satisfaction of basic needs, and a clean environment. Its vision of the EU is to uphold and expand consumer rights (www.beuc.org, visited October 12, 2001). Along with BEUC, DG Health and Consumer Protection represents the ordinary customer and aims to reach these rights in future legislation.

4.4.2 Introduction

BEUC has been working towards an expiry of the block exemption practices for several years since it argues that it has a negative influence on the consumers. Additionally, the industry needs to be determined by the market. This will benefit the consumers because it would enable the market to develop and adjust to the consumers’ demand. However, the organization points out that a new regulation might be necessary in order to guarantee consumers’ rights. It is also important that a new regulation cannot be used to enhance new anti-competitive actions. The regulation has to some extent prevented to open up markets with regard to geography, products, and competition. Further, the inter- and intra-brand competition has been prevented. The “black practices” have resulted in the situation where it is not worth it for the consumers to purchase vehicles in other countries. The regulation has not resulted in any benefits for
the consumers since there is no proof that authorized dealers offer better value for money, service of higher quality, or a faster spare part supply (BEUC, January, 2001).

4.4.3 Competition

BEUC states that both intra-brand and inter-brand competition are restricted by the current regulation, where the limited competition is relevant for both large and small vehicles, involving many different models (Murray, February 19, 2001). The restriction on intra-brand competition is due to dealers only concentrating on their specific territories and the lack of higher volume related discounts for large dealers in comparison to small. Another reason is the tendency towards fewer dealers and larger sales areas where the existing price differences should enhance the intra-brand competition (BEUC, January, 2001).

BEUC implies that there are restrictions on inter-brand competition since manufacturers divide the Single Market by keeping prices high in certain markets. This should not be the case since prices have diminished in relation to investments concerning equipment and promotions. Today, manufacturers are able to adjust their prices to tax levels and currency fluctuations in order to compensate for inequalities. Still, they are able to keep prices high even though the prices of imported cars should be reduced when taxes are relatively low. Moreover, it is important not to overstate brand loyalty since some consumers would be interested in multi-franchising and the “real” competition between different brands would be increased.

BEUC does not believe that a new system would increase the focus on services and the intense competition would not endanger servicing. Instead, the opposite situation would be created where many actors would be able to enter the market and engage in multi-franchising. A new situation would result in more outlets and intense competition. Moreover, the consumers could benefit from having one multi-brand provider in less populated areas instead of single-brand providers.
4.4.4 Distribution System

The current system has lead to inefficiencies in the distribution networks and the market is in need of new players. Comparable products to automobiles, such as tractors, construction equipment, motorcycles, and medical equipment, are currently distributed through different and less restricted channels.

BEUC argues that the commercial independence of dealers from manufacturers is limited. Concerning spare parts, consumers need to be guaranteed that non-original spare parts only are used when the quality is equivalent. The existing barriers performed by spare parts producer makes independent repairers pay higher prices for spare parts in comparison to authorized dealers. These actions are restricting the competition and the obligations of dealers not to sell competitors’ products need to be eliminated. Consequently, territorial or brand exclusivity should not exist and dealers should be able to sell any product at any location. Moreover, the manufacturers want to move towards a system built to consumer orders, i.e. lean supply chains or lean distribution. According to BEUC, lean distribution could result in total vertical integration of the industry and competition would be even more limited, since the dealers would be a part of the extended enterprise. This could also result in higher prices and increased difficulties for the consumers to make comparisons of products.

4.4.4.1 Parallel Imports

The accessibility of new cars is far from being perfect given that new automobiles are occasionally delivered later than expected involving incorrect specifications. Moreover, the existing sales targets and distribution of automobiles can result in problems if the demand is higher than assumed. This is strengthened by the fact that dealers are obligated to sell the full range of products even though some of the models are not as attractive. This situation is sometimes worse when consumers want to purchase a car in another country. The consumers could have difficulties in finding a dealer who wants to take the order or to get a price estimate with regard to incorrect delivery times and deposits. Further problems are delays in delivery times, non-delivery of cars, and withdrawal of orders. Besides, the organization points out that intermediaries, who try to purchase a car to a consumer, face similar problems.
4.4.4.2 Service

A general assumption made by BEUC is that there is no natural link between sales and services that the dealers should be able to determine whether they want to have both sales and services. Today, independent repairers provide services and there are no technical reasons for the connection with sales. There is no economic reason for this link since cars are becoming more reliable, and there are manufacturers who are moving away from this link. The Regulation has obliged the forcing of a connection between sales and services. With regard to mass-market vehicles, the link between sales and services is expected to disappear (BEUC, January, 2001).

With regard to certain technical work and equipment, there might be a need for brand specialists. Although cars have become more complex, the independent repairers should not be prevented from doing their job, given that they have access to accurate expertise and equipment. Various surveys indicate that the quality is not necessarily better if authorized dealers carry them out. Instead, it is in some cases worse. Therefore, independent repairers are the solution to an intense competition. Further, wider access to technical information and spare parts is needed, since manufacturers are currently preventing independent repairers to operate without restraints. Therefore, the manufacturers constantly have an indirect impact on the independent repairers (BEUC, January, 2001).

4.4.4.3 Additional Channels

It is suggested that consumers would benefit from the entrance of new dealers, such as supermarkets and vertically integrated sales companies. Supermarkets would be able to capture a considerable market share for commodity automobiles. However, the supermarkets would have less influence on very expensive and/or specialized vehicles. Furthermore, the quality would be adjusted to the demand since the market will determine the competition. The large retailers would be able to offer high quality through technical expertise and partnerships with service providers. Hence, the current regulation does not provide this kind of competition (BEUC, September 11, 2001).
4.4.5 Price Issues

BEUC highlights that the price differences within the EU are still substantial. The abolition of the current regulation would establish a Single Market with appropriate retail groups, effective settlements, and lower prices. Further, pre-tax prices are usually lower in countries with high level of taxes and, therefore, the manufacturers usually fix pre-tax prices where the taxes are relatively low. The taxation is not a major reason for the large price differences since the manufacturers are able to fix the prices to suit their own interests. If the prices only were considered with regard to tax differences, the prices would be around the same level, especially since there are no fluctuations within the Euro zone. This is not the case and the organization is concerned about the manufacturers restricting their dealers to determine resale prices since the currency fluctuations can only cause price differences to some extent. The majority of the price leaders are large manufacturers, which cause the relatively large price differences. The fluctuations can sometimes act as an encouragement for intra-brand competition if automobiles appear to be inexpensive (BEUC, January, 2001). Finally, the reasons for the price differences should not be based on purchasing power or the additional costs for cars with right-hand drive (Murray, February 19, 2001).

4.4.6 The Role of the Internet

BEUC stresses the potential of the Internet since it could strengthen price transparency and enable the consumers to have a wider offer. This is currently restricted since Internet operators have to go through dealer networks as well as that there are few purchases made on the Internet. Therefore, the current regulation needs to be revised in order to enable this competition (BEUC, September 11, 2001). Furthermore, the Internet could facilitate the development of lean distribution. This enables manufacturers to benefit from product planning and large sales, where the objective is not beneficial for the consumers.
Table 5. A Summary: BEUC’s Position

- The current Regulation does not operate in the favour of the consumers.
- The current Regulation needs to be removed or at least changed.
- The current Regulation has restricted integration and competition.
- Intra-brand and inter-brand competition are restricted.
- There is limited commercial independence of dealers.
- Parallel imports are restricted.
- There is no natural link between sales and services.
- Price differences within the EU are still substantial.
- The Internet could strengthen price transparency and consumer offers.

Source: Own Construction

4.5 The Position of the European Council for Motor Trades and Repairs - CECRA

A prolongation with some amendments is the best solution in the interest of not only dealers but of consumers

Jürgen Creutzig, President of CECRA, July 30, 2001

4.5.1 General Presentation of the Organization

CECRA represents authorized dealers and independent repairers for automobiles and trucks. It is made up of 23 associations from all Member States in the EU, four observer Member States, as well as 10 European Dealer Councils. In Europe, CECRA represents 280,000 enterprises of motor trade and repair businesses, where 108,000 are authorized dealers and 172,000 are independent repairers. In addition, 110,000 fuel businesses and 11,600 motorcycle dealers are included (CECRA, September 11, 2001). CECRA is financially independent and the organization’s main objective is to perform scientific, economic, technical, and administrative studies on all activities that are linked to the selling and repairing of automobiles as well as activities that are connected to the international economic integration (CECRA 1, 2001).
4.5.2 Introduction

CECRA wants to see a modification of the current regulation, acting in the interest of both dealers and consumers. The new modified regulation needs to be valid for a long time, preferable a minimum of ten years (www.autoindustry.com, October 18, 2001). The automobiles are gradually becoming more complex and reliable and, are therefore, in need of special attention when mistakes occur (Evans, February 13, 2001). There are three factors that need to be taken into consideration when evaluating the current system: the protection for the dealers, independent repairers, as well as for the consumers. The aim of the current regulation was to protect these three. However, this protection can only be possible if there is a balance of power between the different actors. Strong and independent dealers would enable the market to have fair prices, intense competition, innovation, and high quality (Koopmans, February 13, 2001).

CECRA argues that the automobile manufacturers are to some extent responsible for why the current regulation has not worked effectively. The current regulation has not been given a fair chance since many manufacturers have not followed the rules. Instead, they have used the regulation in their own favor. An abolition of the current system would be to reward the manufacturers as well as to increase their power to regulate the market. As a result, competition and innovation would be harmed.

4.5.3 Competition

CECRA states that the inter-brand and intra-brand competition is strong within the EU and can be measured by the price. In fact, the belief is that the intra-brand competition “cannot be stronger.” Furthermore, there is strong competition of sales today and more competition would most likely result in lower quality. Today, there is a strong competition between authorized and independent dealers, however it is uncertain whether the competition of sales would increase if the link between sales and services is taken away (CECRA, September 11, 2001).
4.5.4 Distribution System

The qualitative and quantitative selections are significant, where the qualitative selection enables the manufacturers to make calculations on investments for their dealers. The quantitative selection is significant as well since the dealers make large investments. The manufacturers have the right to determine the number of dealers they want to have in their network as well as the number of territories, making it possible for the manufacturers to measure the dealers’ sales and performances.

The balance between the manufacturers and the dealers need to be enhanced, where the dealers need to strengthen their economic independence. Therefore, the organization requires a more detailed regulation that protects the dealers and reduces the imbalance of power. An abolition of the Regulation could, in the long run, affect the dealers’ economy negatively since many small and less profitable actors face the risk of being forced to leave the market. Ankner adds to the discussion that this scenario could mean that the dealers’ heavy investments in equipment would not be fully utilized. The intensified competition could lead to further inequality of dominance (Ankner, September 20, 2001). The authorized dealers’ situation needs to be strengthened, especially concerning investments as well as their lack of protection. Currently, several European brand dealers are investing in buildings and the automobile manufacturers do not grant any protection of these investments. These investments need to be included in contracts. CECRA indicates that the contracts should be based on a minimum of ten years and there should be a notice of termination of at least five years (Koopmans, February 13, 2001). Moreover, there needs to be arbitration possibilities when the manufacturers and the dealers are of different opinions. There should be mutual agreements with regard to arrangements of stock, automobiles, and demo-cars. The mutual agreements would be advantageous for the market and could enable the authorized dealers to become stronger players (CECRA, September 11, 2001).

The educated and well-invested independent repairers are generally performing high quality jobs. However, all independent repairers are not able to afford the technical information, equipment, and parts that are necessary in order to carry out services on all models and brands that are present on the market. Consequently, they are increasingly specialized on specific brands. This is
especially evident with middle sized and larger independent dealers. Furthermore, the organization points out that the independent repairers are very dependent on local reputations (Evans, February 13, 2001). The independent repairers have two advantages over the authorized dealers. First, they have personal relationships with the consumers. Second, they have a low cost structure. Independent repairers tend to react and adapt to consumers’ demand more rapidly than the authorized dealers. This, since decisions are taken within the business, while authorized dealers have to follow their manufacturers decisions (Parlett, February 13, 2001).

Although the authorized dealers continuously provide the independent repairers with knowledge and technical information, the independent repairers do not receive all possible sources (Evans, February 13, 2001). The manufacturers can maintain their control by delaying tactics and incomplete disclosures. There is a need for unrestricted access to technical information, universal diagnosis and repair equipment, spare parts, and training for any repairer from the manufacturers and equipment suppliers. Independent repairers should be able to compete on the same terms as other dealers. Moreover, multi-franchising should be allowed with reasonable conditions for the dealers. The manufacturers should not be able to influence the dealers in their decisions, neither direct nor indirect. The authorized dealers recognize multi-franchising as an important factor that assures economic independence. However, several brands sometimes can be very expensive and complicated to manage since models within the same competitive range usually are technically different (CECRA, September 11, 2001).

CECRA argues that the current system provides the consumers with an extensive choice of facilities. Disregarding warranty and recall work, consumers are able to choose where the automobile should be prepared. The consumers’ choices are based on factors such as purchase location, dealer network, independent repairer, or high availability (Evans, February 13, 2001). There are only seven strong players left on the European market, which implies that there is a need for strong authorized and independent dealers for the market to be effective. However, the number of dealer ownerships will be reduced, but the number of outlets will remain. In the future the dealers will most likely change their businesses and merge with each other.
4.5.4.1 Parallel Imports

The development of parallel imports is dependent on the evolution of the Euro zone harmonization. In the future, the customer may possibly be engaged in parallel import when purchasing a specific model, which might not be available in the country. The customer will not make a cross border purchase only due to the price differences. Hence, the existing differences in price and exchange rates will gradually diminish in the future, resulting in less parallel imports.

4.5.4.2 Service

The link between sales and services needs to be maintained in the future, since it is necessary in creating loyalty and service to the consumers. Since automobiles are complex and expensive products, the consumers expect warranty and after-sales services from the dealers. This link also enhances the necessary safety and environmental standards of the automobiles (CECRA, September 11, 2001). Furthermore, the link results in lower distribution costs for the involved parties. The organization points out that the distribution costs for an existing consumer represent between 10 to 15 percent of the costs that need to be spent on gaining a new consumer (CECRA 2). However, the current link has resulted in sensitivity between authorized and independent dealers, since the authorized dealers have to rely on services in order to compensate for the loss of profits in sales.

4.5.4.3 Additional Channels

Supermarkets may be advantageous in order to organize overproduction, to sell running out vehicles, and to advertise for marketing operations but could harm the image of the brands as well as the manufacturers and the authorized dealers. Selling automobiles in supermarkets would be in contrast to the manufacturers’ brand image and the supermarkets would probably not meet the criteria that the authorized dealers need to do. Moreover, the manufacturers would not be able to have their own facilities within the supermarkets since this would count as direct sales. The supermarkets could also be a threat to the small and medium sized authorized dealers. Besides, supermarkets could have negative impacts on the consumers since they would not offer services. Opening up the market for supermarkets would lead to an oligopolistic market with increased prices and reduced quality. Consequently, the market would involve manufacturer
branches rather than the current networks and the consumers’ needs and expectations would be reduced (CECRA, September 11, 2001).

### 4.5.5 Price Issues

The existing price differences between the EU Member States are not caused by the current regulation since they are due to currency fluctuations and different national taxes. The organization states that as long as there will be a lack of tax harmonization between the Member States, there will also be differences in prices. Better transparency is needed where the authorized dealers should be able to attain models and net prices for all countries from their manufacturers. This would enable the authorized dealers to operate corresponding to the Single Market (CECRA, September 11, 2001). Price harmonization could be reached by having a price band. For example, the Commission determines a price corridor before VAT and luxury taxes, such as 12-18 percent. If the price in one EU country is below the price corridor, the manufacturer is obliged to adjust the prices for the dealers in other member countries.

### 4.5.6 The Role of the Internet

CECRA is positive to the development of the Internet and believes it will expand as a channel for purchasing. The majority of the authorized dealers are already using the Internet, which implies that the current system does not block sales of automobiles through the Internet. It is important that the authorized dealers have the possibility to sell new automobiles, spare parts, and services through the Internet. However, the Internet development could be negative for the consumers since it does not offer services. Other constraints deal with the difficulty in establishing and maintaining the customer contact. Also, a negative aspect of the Internet, is that the purchase is made on an approval of two weeks. The consumers are able to use the automobile during this time and then simply return it.
Table 6. A Summary: CECRA’s Position

- A modified continuation of the current Regulation is necessary.
- The current system has failed due to the lack in balance of power.
- Consumers have an extensive choice.
- Authorized dealers and independent repairers complement each other.
- Independent repairers on the whole perform jobs of high quality.
- There needs to be unrestricted access to technical information, training, spare parts, and equipment for all dealers.
- The link between sales and services need to be maintained.
- Price differences are due to currency fluctuations and different national taxes.

*Source: Own Construction*
5 THE INTERNAL ENVIRONMENT

The chapter of the internal environment has mainly been collected through interviews. The section presents the Daimler Chrysler Group along with the company of Mercedes-Benz. It begins with a brief presentation of the Group giving the reader an overall picture of the global organization. It continues with an extensive description of Mercedes-Benz. The resources and capabilities constitute as the first stage of the company illustration, followed by its current strategic approach and its position with regard to Regulation 1475/95.

5.1 Daimler Chrysler – The Group

The best or nothing
Gottlieb Daimler, inventor (1844-1900)

The Daimler Chrysler Group is a true global organization that consists of 23 business units divided into four divisions: Passenger cars, Commercial vehicles, Aerospace, and Services. Its products and services are sold through more than 200 countries, with production plants in 37 countries spread on all continents, employing approximately 417,000 persons in 2000. The total revenue in 2000 was EUR 162.4 billion and the sales amounted to 4.2 million units of passenger cars, making it one of the top automotive manufacturers in the world. The headquarters are located in Stuttgart, Germany and Michigan, USA (www.daimlerchrysler.com, October 17, 2001).

Today, the Group consists of the following brands: Mercedes-Benz, Chrysler, Jeep, Dodge, Smart, Freightliner, Sterling, Western Star, Thomas Built Buses, Setra, Orion, American LaFrance. As part of the Group’s globalization approach, it has entered into strategic partnerships with Mitsubishi Motors Corporation and Hyundai Motor Company. The aim of the approach is that globalization should not only be valid for markets but it should characterize the whole structure.

The aim of becoming the world’s leading automobile manufacturer involves four key strategic elements. First, it involves globalization and a further expansion in Europe, America, and Asia. The second element concerns having a wide range of highly recognized brands. The Group possesses six automobile
and eight commercial vehicle brands and aims to cover the most important markets and customer segments from volume to premium brands. The third strategic factor constitutes of having a wide product range, offering the customers products tailored to the different lifestyles, financial and professional conditions (Daimler Chrysler Annual Report, 2000). This, in order to exceed the customers’ expectations. Finally, the fourth aspect deals with technological and innovative leadership, involving heavy investments. This development is to some extent dependent on the Group’s level of integration, where the goal is to maximize the exchange of common resources enabling synergy effects (Daimler Chrysler, 2000).

Within the next three years Daimler Chrysler plans to reach three objectives. First, it aims to strengthen Mercedes Benz’s position within the premium segment. Second, to improve the profitability of the service division, sustain its position in the global market and finally, to establish a close and profitable partnership with Mitsubishi Motors.

Daimler Chrysler’s vision is: “Doing what we have always done – but even more efficiently. Harnessing our expertise, energy, experience and global resources. Partnering with other technology leaders to build the best cars, trucks and buses – for all our customers, in all our markets. All this to deliver the future first. And to deliver long-term value for shareholders” (Daimler Chrysler Annual Report, 2000, p. 1).

5.2 Mercedes-Benz

5.2.1 Introduction

Mercedes-Benz is one of the world’s leading manufacturers of automobiles focusing on safety, comfort, high level of awareness, as well as constant priority to future development. The company is present in 173 markets and has sales in approximately 190 markets throughout the world (www.mercedes-benz.com, November 13, 2001).

The market and sales situation in key markets varied during year 2000. In Europe, the company is most successful in Germany, Italy, and the UK. In 2000, the company had a market share of 15.4 percent in Western Europe.
However in Europe, certain markets, such as Germany, have experienced reductions concerning sales. The company noted a considerable growth in the emerging markets of Asia, and Eastern Europe (Daimler Chrysler Annual Report, 2000). South America, Australia and the Middle East experienced growth as well. The S-class sedan automobile reached a worldwide market share of 53 percent and is still the number one automobile within its section. The sales of automobiles increased by four percent in Western Europe and the company did better than the valid market trend. Moreover, Mercedes-Benz is also doing well in the US (Larsson, October 25, 2001).

Figure 11. Mercedes-Benz Unit Sales 2000

Source: Daimler Chrysler Annual Report, 2000, p. 29

5.2.2 Resources

5.2.2.1 Financial and Physical Resources

In 2000, Mercedes-Benz’s sales increased its unit sales and revenues in all major markets. The sales increased by five percent to an amount of 1.05 million sold vehicles in comparison to the previous year. The increase was especially evident in the US, where more than 200,000 vehicles were sold. Additionally, the sales increased by four percent in Western Europe and the German market reached a market share of 12 percent in an overall declining market (Daimler
Chrysler Annual Report, 2000). In the same year, the company’s revenue reached EUR 43.7 billion and the operating profit rose by six percent to EUR 2.9 billion.

Mercedes-Benz has at least one location in every European country. Although the company has an extensive global presence, it has realized that local adaptation is necessary in order to sustain its position. For example, the company has desks in the middle of the outlets in the majority of the European countries. This, since the company does not want the salesmen to approach the consumers directly, but they should be seen by the customers. However, this is not the case in Sweden.

5.2.2.2 Technology and Culture

The company has established a new Mercedes-Benz Technology Center (MTC) in Sindelfingen, Germany, in order to enable the company to produce more rapidly, more cost effective, and at higher levels of quality standards. The objective is to locate all functions, such as development, production, sales, and purchasing, to one central unit (Daimler Chrysler Annual Report, 2000). The MTC is currently only available for Mercedes-Benz, but Daimler Chrysler will also be involved in the operations in the future. Moreover, when new models are about to be introduced, the company uses “normal” people to test these automobiles. These people get the opportunity to test-drive the automobiles in order for the company to see that everything works as planned.

The corporate culture is a high priority for the company. The corporate language for Mercedes-Benz as well as for the Group is English. However, national differences still exist within the company as well as the entire Group, and therefore cooperation between the countries is significant. The division involving Denmark and Sweden illustrates this situation, where there are differences in the countries’ histories, ways of doing business, social abilities, and hierarchies. As a result, the company works hard in order to reach a common corporate culture and it is therefore engaged in a project that is planned to be completed in September 2002 (Larsson, October 25, 2001). This kind of cooperation requires a high degree of openness and willingness to learn from the different experiences. The company has intentionally placed different functions on the two locations where the daily meeting enables a cultural learning-experience every day. This is not only good for the competition but
also vital since the Scandinavian market is developing as an independent region becoming fully integrated into the European market (Daimler Chrysler, 2000). The dealers are most likely experiencing the language barriers as the largest problems within Mercedes-Benz’s corporate culture.

5.2.2.3 The Brand Reputation

The Mercedes-Benz brand has since its introduction in 1886 grown to become one of the world’s leading brand names within the automobile industry. The company has reached a high level of brand recognition and was rated by the agency Interbrand to be the “world’s top valuable premium automobile brand” (Daimler Chrysler Annual Report, 2000). One of the most important future challenges for the company is to maintain the brand concept, characterized by tradition and common belief.

Today the brand image aims to represent quality, security, and technical innovation. At Daimler Chrysler the name of Mercedes-Benz is considered a synonym for the production of high-quality and innovative vehicles. Today, the company has approximately 10 million customers around the world, which are perceived as loyal. According to research, it shows that in the case of Mercedes-Benz, 80 percent of the customers will most likely stay within the company with regard to the next purchase (Daimler Chrysler, 2000). The company believes in the importance of creating and sustaining the image around the brand. Even if the company has its own way of developing the brand identity it can in relevant situations, make comparisons with its main competitor concerning brand position, Coca Cola (Larsson, October 25, 2001).

With regard to brand building, the company works in line with representing a brand that everyone recognizes and finds preferable in contrast to others. The automobile brand should, in view of the company, almost resemble a lifestyle. The purchase of a car should be of an emotional character and the choice for a particular brand should involve passion. In e.g. Berlin, the company has established a new type of location and facility where it has made major investments in order to increase the consumer’s value and their perception of the Mercedes-Benz brand, and more investments are on its way. The company is not copying the concepts of their largest competitors as BMW and Audi, but strives to maintain its unique way of working. One important aspect to consider is that Mercedes-Benz’s customers are different from the competitors’, since
the customers require more from the brand (Langetoft & Stener, 2001). Another part of Mercedes-Benz’s brand reputation deals with protecting the image. The company has lawyers who constantly visit different outlets to see how the use of the logo is pursued. If they find out that retailers or other selling points are breaking the law of using the company’s logo, they could file a suit against them (Larsson, October 25, 2001).

5.2.2.4 Human Resources

In 2000, Mercedes-Benz had a total number of employees of approximately 101,000, whereof 93,000 employees in Europe. The Group has developed a common strategy for all Human Resources Departments. This strategy aims to prepare the company’s employees to function along with similar standards and goals. The global human resources activities concern the following factors: contribution to profitability, leadership development, building up expertise in e-business, enhancing the image as an attractive employer, and valuing diversity (Daimler Chrysler Annual Report, 2000).

In line with the Group’s approach, Mercedes-Benz gives attention to educational development for the employees. In eight places around the world Daimler Chrysler has built up a Marketing Academy, which is a workshop and education center for the employees. The overall competence should be developed since it widens the individuals’ scope of competence (Daimler Chrysler, 2000). Another part deals with maintaining the level of technological skills of the employees, involving both manual and know-how. The company has apart from other educational activities made a lot of investments in “teambuilding.” Within a global organization, several different languages exist. Within the company language barriers have started to erode and therefore education in languages is a vital part of the overall learning process. Moreover, Mercedes-Benz arranges different social activities both within and outside the teams in order to create cross-functional teams. These activities can also be supported by professionals, like e.g. consultants, who are able to give recommendations from an external perspective. As part of the learning process the company offers the employees to engage in courses originally provided for the food industry. The Swedish company ICA, has been very successful in their way of displaying and retailing products, something that Mercedes-Benz has realized the importance of.
5.2.3 Capabilities

5.2.3.1 Research & Development

The future approach of Mercedes-Benz stands for intensive research and development operations. In 2000, the company invested USD 2.104 billion in R&D and the company plans to maintain this level of investments during the next few years (Daimler Chrysler Annual Report, 2000). Intensive R&D is significant for the company in order to build up and sustain a long-term and successful strategy and the new Mercedes-Benz Technology Center has therefore been established. This center will ensure that products are developed with higher quality and at less time and it will consequently lead to lower costs for the company in the future (www.daimlerchrysler.com, October 17, 2001). Maintaining quality is an ongoing process for the company and it has, therefore, introduced a concept for commercial vehicles called the “CharterWay Service.” The concept aims to improve safety, sustain long-term value, and increase transparency in costs.

In addition, Mercedes-Benz’s R&D involves benchmarking, where the company purchases models from competing brands. Since benchmarking is widely used, Mercedes-Benz realizes that patents are very important in order to prevent competitors from copying its actions. However, cooperation in R&D between different brands exists. Moreover, Mercedes-Benz has a department that concentrates on short and long-term external analysis. With regard to product design, Mercedes-Benz focuses on designing its products in accordance with current trends, but it is, at the same time, also concerned with ensuring the brand’s tradition of having unique solutions. This balance is very significant for the company since the design should be one of the main determinants for the consumers when buying a Mercedes-Benz. Moreover, the company has reorganized all its manufacturing facilities to increase the flexibility. This enables Mercedes-Benz to adapt its production to future changes in the environment as well as customers’ demand (Daimler Chrysler Annual Report, 2000).

5.2.3.2 Marketing Performance

Customer concern has become increasingly important for Mercedes-Benz as well as for the whole automobile industry during the passed few years. The
company is, throughout the whole world, engaging in a project called “Customer Care,” where directives are given to the different subsidiaries from the headquarters in Stuttgart. The company asks the consumers what they are interested in and all the research is entered into an extensive customer database. This enables the company to send out personalized letters to the consumers, involving their specific interests. Mercedes-Benz has customer assistant centers (CAC), which receive consumer letters and inform the dealers about possible difficulties. One example of a letdown with regard to customer research was when the company followed the trend of offering a free wash for the serviced automobiles. This was later evaluated and the company came to the conclusion that the customer satisfaction could have been enhanced (Larsson, October 25, 2001).

With the support of a dialogue-program, the company seeks to follow up the purchase processes with the consumers. This dialogue occurs at two levels and aims at improving the communication between the company and its consumers. First, a questionnaire is sent to the consumers one month after the purchase of a car where they can choose to be included in the company’s database. There are four elements of the questionnaire: sales, corporate identity, service, and personnel development and knowledge. The responses are the base for the company’s dealer bonus system and evaluations are made four times a year. If the dealers receive satisfaction of 80 percent or above, they are given an additional bonus. Today, over 75 percent of the company’s consumers are seen as satisfied. The second step involves sending questions to the consumers with regard to the services, evaluating the corporate identity of the company.

In addition, the company composes an “Action Plan” twice a year. This plan involves information and directions for how Mercedes-Benz wants its employees to treat the consumers. Different consumers are treated differently with regard to what products they purchase. Moreover, the company conducts focus groups, where the consumers are selected by random sampling. This kind of method is continuously carried out and has proved to be very effective (Larsson, October 25, 2001).

One way of marketing the company’s products is through the free mobility and warranty package called “Mobilo-life.” This package is valid for 30 years and it comes with every new automobile. It is effective in 23 European countries at no costs for the consumers. Furthermore, in order to increase the brand awareness
as well as to reach worldwide publicity, the company is engaged in sponsoring Formula 1 racing and the team of McLaren Mercedes Team (Daimler Chrysler Annual Report, 2000).

5.2.3.3 *Sales and Distribution*

The Mercedes-Benz’s sales and distribution are dependent to a large extent on the cooperation with the dealers. Currently, the company has between 500 and 600 dealers within its European dealer network, involving both authorized and company-owned. Today, Mercedes-Benz sells directly to certain large customers, such as leasing companies where the dealers are involved receiving a percentage of sales. The development of dealerships has entered a new phase for Mercedes-Benz. Five years ago the dealers did not have the time to do all services and they did not realize the future demand of offering full service. During the 90s the company’s aim has been to enable less but larger and stronger dealers, since the economic strength and competence is the foundation for a professional treatment of the customers (Daimler Chrysler, 2000). Another part of distribution deals with the fact that Mercedes-Benz has established its own retail businesses in many large European cities such as Paris, Madrid, Milano, Frankfurt, and Stockholm.

As it is today, Mercedes-Benz wishes its dealers to only sell the original spare parts, but in accordance with the Regulation it cannot require their dealers to do so. The company often tries to make the dealers use its spare parts through different incentives. They are offering bonus competitions where the dealers can earn extra bonuses if they increase their effort in sales and services. The bonuses are based on the criteria such as; the quality of service, the amount of sales, the extent of giving employees training and education, as well as enhancing the Corporate Identity. As part of an internal customer care project the company aims to enhance the relationship with the dealers and assist them in some of their operations. The dealer has an average margin of 2-3 percent, which is relatively low in comparison to other industries, and the margin for providing services tends to be higher.

If Mercedes-Benz is not satisfied with a dealer it has the right to terminate the contract, if valid reasons exist. The dealer is then given a two-year notice. The current Regulation can, in some cases, function as an incentive for the company to monitor the dealers’ businesses. Mercedes-Benz is following up its dealers
on a regular basis and visits them at least twice a year. Within this action plan the dealership is analyzed and tested in order to find a way to improve. The tests are often conducted without the dealers’ awareness in order for the company to get an objective perspective of the dealers’ business and operations. The dealers need to follow several requirements. One example is that the customer has to be offered a full tank at the purchase.

Mercedes-Benz and its dealers offer several incentives with regard to guarantee and service of the automobiles. The company’s free service package, “Mobilo-life,” is one important incentive, where the customers are offered a 30 years mobility and warranty package. This guarantee is applicable in 23 European countries. In order for the guarantee to be valid, the customers are required to visit one of Mercedes-Benz’s outlets within the first four years. The service does not occur on a regular basis but is based on the demand (Larsson, October 25, 2001). The company speculates that within five years the first service after purchase will take place after 10,000 miles, since the automobiles are becoming more advanced and reliable.

5.2.4 The Strategic Approach of Mercedes-Benz

The company aims at designing its products with regard to current trends as well as by using unique solutions. In the beginning of the 90s, the company’s strategy changed to provide a premium product in each segment (Daimler Chrysler, 2000). The company’s strategic focus is based on the brand image and currently Mercedes-Benz is one of the leading brands within the industry. The brand represents quality, security, and technical innovation. The aim and the cornerstone of the strategic approach are to sell the Mercedes-Benz cars as a whole experience to the consumers. This, in order to maintain and improve the position of its brand and to have a common understanding of its image throughout the world. One example of the aim of creating a whole experience is the company’s adventure center located in Berlin that was built in order to increase the consumers’ value. The company’s dealers need to have this common understanding and be a part of the brand’s concept. The company’s most important challenge is to maintain the brand’s exclusiveness and quality since the consumers should consider the automobiles as value for money.
With regard to distribution, the strategic plan involves reducing the number of dealers and to enhance the cooperation between the actors within the network. The idea is to have several larger dealers that have the responsibility for several smaller ones. Besides, future strategy could mean that it is possible to limit the dealers’ districts. However, this does not concern the service outlets since the company has realized the importance of providing full service at locations in accordance with the consumers’ requirements. Moreover, Mercedes-Benz aims at having its own retail business. The company makes comparisons with the clothing industry, where many strong brands, have succeeded in having their own retail businesses. Mercedes-Benz believes that the company can, with this way of distribution, enable a control over the brand and its image. However, these retail businesses are most common in large cities since they are heavily populated and represent the key areas for the company. Furthermore, in order to increase the dealers’ performance as well as to enhance the dealer loyalty, Mercedes-Benz is offering bonus competitions to its dealers. Based on their performances, the dealers have the possibility to earn additional bonuses (Langetoft & Stener, 2001).

Mercedes-Benz plans to continue its expansion to offer the consumers a wider product range. The strategy involves producing in large quantities in order to increase the effectiveness as well as to reduce the costs. Also, the company indicates that the services will be increasingly important in the future and it will be the factor that collects most of the profit. It is not enough to be specialized in one particular area and, therefore, the company is working with improving its customer contacts and offers packages involving both products and services. The consumers are offered a personalized contract since it increases their knowledge and comfort.

Intensive R&D is the basis for Mercedes-Benz’s operations in order to build up and sustain a long-term and successful strategy. In order to strengthen its position, the company makes use of its Technology Center (MTC). This center will ensure that products are developed with higher quality and at less time, which consequently lead to lower costs (www.daimlerchrysler.com, October 17, 2001). Moreover, the company is engaged in benchmarking, where it purchases models of other brands in order to see how they are functioning and structured. A patent is a very important tool for the company in order to prevent competitors to copy its products and operations. With regard to the Internet, the company’s customers of today use it mainly as a source of information. It is
significant for Mercedes-Benz to follow the trend and continue its investments. However, the extent of investments is still uncertain (Langetoft & Stener, 2001).

Further globalization is involved in the company’s strategic plans. As a part of this strategy, Mercedes-Benz is entering the emerging markets, e.g. Romania, Russia, and Hungary. In order to be aware of external changes, it is engaged in both short and long-term external analysis. Consequently, it has been realized that local adaptation is necessary in order to sustain its position. Furthermore, Mercedes-Benz does not compete on prices since the market determines the company’s pricing strategy. A price harmonization will to a large extent take place in the future and manufacturers will therefore most likely not use prices as a competing tool. This is an important issue for the company and it has therefore already harmonized its prices to a large extent (Langetoft & Stener, 2001).

5.2.5 The Position of Mercedes-Benz with regard to Regulation 1475/95

The company is currently speculating on the proposal that will most likely be presented by the Commission at the end of the year. Several issues have been taken into account and the company is evaluating the impacts of the possible scenarios. Today, Mercedes-Benz has several plans for the strategic direction, which are based on assumptions and speculations. The company is presently active in the discussion of the future Regulation mainly through branch organizations like ACEA. The company has also been involved in the arranged hearings and is continuously in indirect contact with the Commission. Mercedes-Benz is planning for and believes that the future scenario will most likely involve a transition period where new conditions are introduced eventually.

With regard to possible scenarios, Mercedes-Benz does not have confidence in abolishing the current system. If this will materialize, the company speculates that new players will enter the market, which could change the industry in the short run. With this situation Mercedes-Benz has to take the eventual loss. Another issue deals with the possibility for the dealers to choose their manufacturer. Any dealer that meets Mercedes-Benz’s qualitative requirements
would then be able to become its dealer and the company cannot refuse it. If the Regulation changes in accordance with this condition, it could indicate that Mercedes-Benz will have a hard time to control its businesses and operations entirely in the future. Still, the company considers that qualitative demands are necessary. This modification will, according to the company, have a large impact on the overall business and the company would like to increase the qualitative requirements in order to control the number of dealers.

The company does not consider the American model as an option, where everyone follows one price. This could eventually hurt the overall competition. Daimler Chrysler is in general aiming at not working towards the American model because they want to be able to manage the dealers and the brand distribution themselves. If large changes will occur this management of dealers will be the factor that determines the company’s growth and position. Another point deals with the dealers’ right to advertise across borders. This could result in an intensified price competition and increased transparency. Consequently, this could make it more difficult for the dealers in the short-term perspective since the price competition will be fierce. In the long run, the small dealers will have problems in making profit and only the strongest dealers will survive. For the customers, a fierce competition could be beneficial in the short-term enabling reduced prices. However, this could result in higher prices due to fewer dealers in the long run (Langetoft & Stener, 2001).

Furthermore, the company is discussing the issue of multi-franchising. The consequences for the dealer could, in the short-term, involve large investments. These investments would involve having several systems in order to enable service, guarantee, and spare part handling. If the future scenario will involve multi-franchising, it is suggested that dealers most likely would introduce a brand within the Group. The existing development enables different brands to use the same equipment and costs can thereby be reduced. Moreover, the company continues by stating that multi-franchising will be more apparent in large markets, such as Germany. In Sweden, contrasted to Germany, multi-franchising will not be a threat due to its local structure and democracy. The company has a general policy of brand separation. Furthermore, the company highlights the importance and significant value of the Mercedes-Benz brand. The company has identified a lack of brand perception among several dealers within the network even today. The company believes that “Mobilo-life” is an
important tool in brand building and will be increasingly important in any possible scenario.

With regard to technical information, the future regulation will probably change its availability. Today, the automobile manufacturers offer their dealers the information differently, which give the players different prerequisites. Furthermore, Mercedes-Benz has a general assumption that in the future it is competition that will determine the survival. The dealer that performs the most excellent service will be the one that survives best in the long run (Larsson, October 25, 2001).

Mercedes-Benz indicates that it is hard to decide the development of the Internet with regard to the automobile industry, and states that the market will be the final determinant. Due to the development of the Internet, the consumers are today increasingly aware of their rights and it will most likely still be used only as source of information. Moreover, supermarkets of automobiles are seen as an uncertainty. Thus, it will, according to the company, almost certainly only represent the low priced segment. Finally, price differences and parallel imports will eventually be reduced due to the enhancement of the Single Market.
"The great thing in this world is not so much where we are, but in what direction we are moving."

Oliver Wendell Holmes

Part III represents our analysis, conclusions and implications, as well as suggestions for future research. The analysis involves our own thoughts and speculations of the specific situation and our case company. This discussion is the basis of the final conclusions and implications for this study.
6 ANALYSIS

In this section we present our analysis of the empirical study, which is based on the theoretical framework. The first stage involves a situation analysis of the external and internal environments of Mercedes-Benz. The purpose is to identify the external opportunities and threats as well as the internal strengths and weaknesses. The second stage involves the future strategy formulation where possible scenarios have been identified in order to combine the internal and external environments. This is accomplished through the use of TOWS, leading to relevant strategic directions for Mercedes-Benz.

6.1 Situation Analysis

The first step in the strategy formulation process is to perform a situation analysis, which aims to identify the current phase of the company and its external environment. Apart from the market setting, the external environment of a multinational corporation refers to the different institutions as well as the involved relationships. The situation analysis will enable to forecast and indicate the direction for the company. It functions as the foundation of the future strategy formulation.

6.1.1 External Environment

Currently, the European automobile industry is experiencing complexity in many aspects. It is therefore gradually more significant for the automobile manufacturers to evaluate the relevant external factors that could have an impact on the companies’ strategies and operations. The success of Mercedes-Benz will be determined by its ability to match the internal organization with the external setting as well as to maintain the relationship with the institutions that are included in the company’s network.

6.1.1.1 Threats and Opportunities

The automobile industry is one of the most fundamental industries in the world having the majority of sales in Western Europe. Europe experienced a decrease in sales of two percent in 2000, while it increased in the US by three percent and in Japan by five percent. This development constitutes a threat to the
European automobile actors since the market has developed into a replacement market, where economies of scale and lean distribution are increasingly important. If this trend continues, the actors could face the threat of over-production. Besides, the over-capacity involves a risk of continuous downward pressure on prices, which creates difficulties for the manufacturers. Another threat involves the increase in interest rates and the high prices of gasoline, which could lead to high consumer uncertainty.

The “straightjacket-effect” could constitute as a threat to the overall industry since it hampers effective competition and creates stiffness in the industry. Furthermore, due to the fact that the industry is saturated and highly cyclical, the over-capacity could lead to further consolidations. Other reasons for this development are that the industry is very capital intensive, involving costly facilities and equipment, which makes the industry vulnerable in unstable market conditions. The consolidations are threatening the overall industry and will result in reduced competition and higher prices. Hence, from a business point of view, it could become beneficial for the manufacturers that are able to survive in an oligopolistic market. These manufacturers could gain from broader worldwide distribution networks, reductions in fixed costs, and faster expansions. Additionally, the producers are forced to make their operations and actions more efficient through lean production and lean distribution. The number of dealers is most likely to be reduced, given that the manufacturers have realized the need for restructuring the ownership of dealers. Another relevant factor is the development of supply chain efficiency. The consumers are in general unwilling to wait for the delivery of the cars. Therefore, it has become more important to build cars to customer order in order to reduce the lead-time and stock level.

The increasingly shorter product life cycle constitutes both a threat and an opportunity. The manufacturers are constantly forced to improve their products in order to satisfy the customer demand. However, this pressure enables constant development in innovation and technology. As an example, the consumers can choose from more than 40 brands representing approximately 250 models within the EU market. Another threat for the manufacturers deals with environmental standards, such as transport and pollution policies, mainly in large European cities. This can create difficulties since the environmental standards will be increasingly complex. Consequently, the manufacturers that enhance their ability in becoming more environmentally friendly will obtain a
competitive advantage. In a long-term perspective, it is also important to consider that the oil resources will not last forever and the automobile production involving alternative fuels will become a vital element in future innovation.

The strong pressure, within the European market, forces the manufacturers to expand geographically, mainly in emerging and less developed countries. Markets such as Eastern Europe, South America, and various Asian countries are of major interest. This development has and will continue to create opportunities for the manufacturers to find new ways of expanding. These markets have characteristics that are very distinctive from the EU market and local adaptation could become a major source of competitive advantage. However, there are also uncertainties associated with these markets since it is unclear how long the development will last. Several manufacturers have made heavy investments in these areas without any results, while others have entered too early and have experienced large losses.

Another issue deals with the development of dealerships, which has entered a new phase. A few years ago the dealers did not have the time to offer all services and they did not realize the future demand of having the full range. Today, the customers’ requirements are higher and it is vital for the manufacturers to understand the concept. The European consumers have a specific buying behavior that the manufacturers need to consider. With regard to services, the consumers tend to return to the authorized dealers for repair during the first few years after the purchase, which resembles the guarantee. Hence, when the guarantee is expired, the consumers will most likely turn to other repairers. The challenge for the manufacturers as well as for the authorized dealers is therefore to create and maintain customer loyalty. Common methods for creating loyalty are for example warranty and service packages. Many manufacturers have realized its importance and are increasingly offering specific incentives to consumers.

Concerning the Regulation, the Commission’s goal is to reach a final proposal based on objectivity. The complexity of reaching an objective proposal involves many local markets and interests within the EU, something that the Commission has to consider in reaching the Single Market. Furthermore, it is difficult to reach objectivity when each industry organization represents various actors and where there are, to some extent, imbalances in power between the
different organizations. The possible outcomes are based on speculations and several opportunities and threats can therefore be identified. A multinational corporation’s internal and external relationships are under institutional influence. One should remember that the involved actors have the possibility to contribute with valuable inputs until the final decision is presented, giving them the opportunity to influence the future Regulation. This is made possible through being a part of the network of relationships that the Commission manages. There could exist elements which the parties wish to eliminate in order to avoid misinterpretations of their positions. Furthermore, there are aspects that the Commission constantly wants to discuss. This gives the manufacturers the possibility to get an impression of the final proposal and make preparations accordingly. Moreover, the manufacturers are in constant discussions with other branch organizations in order to compromise on a suggestion that will be presented to the Commission.

“For each new regulation there is a transition period. The more changes (are) introduced, the longer the transition period will be.” This statement was made by a competition official and illustrates that the extent of future changes will decide the length of the transition period. A longer period will give the manufacturers opportunities to adapt to the changes in a stepwise process. However, there is also a risk involved since several companies could face unpredicted difficulties when restructuring and the transition period could become insufficient. In accordance with Grant’s theory, the car manufacturer needs a framework of the most relevant external influences in order to match them to its internal environment and, consequently, to the future strategy formulation.

6.1.2 The Internal Environment

Evaluating Mercedes-Benz’s internal environment, involving resources and capabilities, is another component of the strategy formulation process. The analysis of the current situation of the resources and capabilities concerns identifying the internal strengths and weaknesses. This is a prerequisite since the company’s strategy must be in line with its identity and purpose. A formulation of the future strategy will thereby be possible in order to gain a competitive advantage.
6.1.2.1 The Strengths of Mercedes-Benz

**Brand Image:** Mercedes-Benz possesses a strength in its world leading brand name where the company’s strategic focus is based on maintaining the brand’s image. To maintain and increase the brand image and awareness, Mercedes-Benz has for example established adventure centers and engaged in sponsoring sporting events such as Formula 1 racing. A well-established and maintained brand image makes it possible for the company to evaluate the consumers’ possible changes in perceptions and motivations. Additionally, consumers prefer a recognized brand, especially where the products are distinctive and complex. It is a long time investment and the customers tend to be more engaged in the brand in comparison to other consumer goods.

**Loyal Customers:** One of Mercedes-Benz’s strengths is its high share of loyal customers. Research shows that approximately 80 percent of the customers will stay with the brand at the next purchase. A loyal customer base enables the company to maintain a well-established market position, which could function as a barrier to entry. Besides, the loyal customer base allows Mercedes-Benz to save costs since it is expensive to attract new customers. In building this position, the company has realized the importance of customer research and has engaged in care programs aiming at having constant dialogues. A customer database can assist in understanding important customer issues, enabling companies to deal with problems at an early stage without damaging the relationships.

**Technological and Innovative Leadership:** The company has established a strong position in technology and innovation. To maintain its long-term strategy, the company makes heavy investments in R&D along with the Group’s initiatives. The aim of the Group is to reach synergy effects and integrate common resources and capabilities. An example of its focus in R&D can be illustrated by Mercedes-Benz’s technology centers where many functions are incorporated into one central unit. Another indication of the company’s innovative character is its product design, where new developments and the traditional use of unique solutions are combined. This is vital since automobiles are becoming increasingly complex and computerized. In addition, customers expect to receive more value from the products in both design and innovation. As a sign of the company’s creativity, every customer purchase includes the free warranty and service package of 30 years, “Mobilo-life.”
Strong European Presence: Mercedes-Benz has a strong European presence representing 70 percent of the overall sales in 2000. The company’s aim is to “act local” and it has therefore established locations in every European market. Its strong European presence can be illustrated by the fact that the company, despite an overall declining market, did better than the valid market trend. Furthermore, the company has enabled a wide local knowledge in the European market by having approximately 92 percent of the workforce in Europe. The EU Member States have specific characteristics and will be affected in different ways and the local presence of Mercedes-Benz can therefore be advantageous. Hence, consideration needs to involve that the current EU market is saturated and primarily functions as a replacement market.

The Distribution Network Development: The company’s focus in developing and restructuring its distribution network is considered to be a strength. Mercedes-Benz aims to improve the dealers’ performance and loyalty by offering bonus competitions. In order to enhance the dealers’ financial strength, Mercedes-Benz aims to have fewer but larger dealers. As a part of restructuring, the company has set up its own retail businesses in many large European cities. This development is significant since the future is uncertain and preparations need to be made at an early stage. Since Mercedes-Benz already has started with its preparations, it could benefit from being ahead of its competitors.

Corporate Development: Another asset is Mercedes-Benz’s high priority to improve its corporate culture and skills. The employees are engaged in different projects aiming at enhancing the corporate culture. Besides, the employees are assigned different functions across the borders to eliminate cultural barriers and make use of each other’s competence. Concerning know-how and skills, the company has workshops and education centers, where the employees receive needed training. Apart from the educational activities, the company invests a lot in teambuilding. A corporate culture of a multinational company needs to be well-integrated for all divisions to operate in accordance with the same goals and values.

Use of Benchmarking: The company makes use of benchmarking in a distinctive way by using other industries. It offers the employees to engage in courses provided to industries, which Mercedes-Benz perceives being successful in sales and marketing. In order for the company to constantly be
updated about possible external changes, it has proved to be beneficial to utilize its external analysis department. The use of an external analysis is especially important for the manufacturers at present given that companies need to be prepared for the legislative changes. This analysis needs to be thoroughly conducted and evaluated, focusing on the most relevant factors.

### 6.1.2.2 The Weaknesses of Mercedes-Benz

*High Market Concentration:* Even though Mercedes-Benz possesses a strength in having a strong European presence, it could also be considered a weakness. Certain European markets have experienced reductions in sales. This creates difficulties since the company is too dependent on specific key markets.

*Cultural Barriers:* Mercedes-Benz experiences cultural barriers that impact the business operations. The current barriers are due to differences in the ways countries do business, social abilities, and the organizational structures. These national differences can be seen throughout the entire Group and they create organizational diversity. This aspect involves the dealers as well. They have identified that the existing language barriers represent the largest problem within Mercedes-Benz’s corporate culture. Internally the company has realized the difficulties and offers language training to a large extent.

*Insufficiencies in Dealer Relationships:* In Mercedes-Benz’s relations with the dealers, certain elements need to be enhanced. Today, the company has relatively well-established dealer relationships, however, improvements are needed to create loyalty, trust, and commitments on mutual terms. There is to some extent a lack of knowledge about the real situation of the involved parties and Mercedes-Benz could benefit more from dealer knowledge and experiences. The relationships need to involve dialogues that are based on mutual terms where the dealers need to contribute to the value for the end consumers.

*Late Establishments:* Mercedes-Benz has been rather late in introducing several new facilities and concepts in comparison to its competitors. Hence, when the company does introduce new concepts it is very dedicated to materialize the specific tasks. In this industry more effort is considered necessary and a first mover advantage could be the final determinant of obtaining a leading position.
Lack of Future Planning: Although Mercedes-Benz plans and speculates in future possible outcomes, the company needs to be more precise with regard to certain aspects. There is still uncertainty whether the new conditions will be implemented directly or eventually. As far as one can tell, the company plans and believes that the future scenario will involve a transition period where new conditions are introduced in a stepwise process. This could result in insufficient preparations for the legislative changes since the company needs to evaluate the consistency of all important aspects.

Lack of Legislative Knowledge: The block exemption practices require the manufacturers to be constantly updated about the industry’s policies. It is significant for the company to place the Regulation in an overall context and understand the relation to its operations. It seems as if Mercedes-Benz could make use of further knowledge about the current system in order to facilitate its scenario planning. This would reduce the risk of being imposed to fines by the regulators.

6.2 Future Strategy Formulation

The Commission is currently evaluating several outcomes of the Regulation in order to reach a final proposal. The change of the legislative framework could have considerable impacts on the involved actors. Five scenarios have been identified, which will be analyzed separately. The scenarios start with a short description of their characteristics and are followed by the analysis of how they impact Mercedes-Benz.

6.2.1 Scenarios

The following scenarios have been developed through our own discussions and speculations, which we have obtained through the interviews with several institutions. These interviews were conducted with both industry organizations and EU officials. Our scenario guide (see Appendix 4) functioned as a useful and complementary tool in our discussions and has facilitated the use of scenarios. Additionally, the executive summary of Accenture’s study and other relevant publications have contributed to this analysis. The scenarios are based on specific characteristics, where the first and the fifth scenarios illustrate the
most extreme possible outcomes. The analysis is based on the short- and long-term perspectives in order to enable a relevant discussion.

This section acts as the foundation to future strategy formulation. The formulation of future strategic directions is facilitated by the use of the TOWS theory, combining the internal and external environments. This analysis will include strategic directions in line with Dyson & O’Brien’s theory (1998), which will enable Mercedes-Benz to adapt its current direction to the opportunities and threats in each scenario. However, specific strategic options will not be presented. Moreover, we have identified factors that are more significant in certain scenarios and these will be analyzed more in depth. This section enables the reader to understand the basic trends, while key uncertainties are identified in relation to the company.

6.2.1.1 The “Free-for-all” Scenario

The “Free-for-all” scenario involves an abolition of the current Regulation. All actors will be able to engage in sales and services without selective and exclusive restrictions and the link between sales and service will be removed. The manufacturers will not be able to impose any sales target on the dealers and budget calculations would not be based on the market situation. Consequently, the barriers between the territories will be removed. However, one should keep in mind that manufacturers would most likely impose qualitative requirements in order to ensure overall quality. Concerning brand exclusivity, the dealers would not have any restrictions and would be able to incorporate multi-franchising into their businesses. As a result, the competition will be intensified. Due to this, the manufacturer would most likely offer large volume discounts to attract the dealers to choose one particular manufacturer. Internet and supermarket operators will be able to enter the market without any restrictions. Finally, the technical information will be available for all parties, but exceptions could exist to some extent.

This situation could involve a threat of entry to the market of so called “gold diggers,” which in the short-term will lead to intensified competition and lower prices. In a long-term perspective, the competition will not be as fierce since many actors will go out of business due to economical reasons. As a result, the remaining large actors could increase the prices to unreasonable levels. This is in line with CECRA’s belief that this scenario would affect the dealers’
economy negatively given that there is also an overall lack of protection of the investments. In addition, if the competition stays intensified, the dealers’ control could be reduced leading to further inequality of dominance. These market conditions contradict the Commission’s opinion since it argues that the dealers currently are in a weak position.

In line with BEUC’s preferences, the “Free-for-all” system allows the dealer to decide how it wants to structure its operations. However, the qualitative requirements could be imposed, based on EU decisions. If there will be small qualitative requirements, one can argue that this scenario will be similar to the ”Few and Large Dealers” Scenario. Obstacles could arise if many dealers decide not to offer services or if too many dealers go out of business due to the intensified competition of sales and services. This will result in insufficient service coverage in less populated areas or where specific and complex repairs are needed, due to the constraints in making high investments in equipment. As a consequence, the authorized dealers could decide to become independent in order to compete better and specialize in services. This is supported by CECRA’s belief that the economic situation is often worse for authorized dealers. This threat could to some extent be reduced if Mercedes-Benz chooses to have regional dealerships rather than having many expensive outlets. These dealerships would be characterized by many specialized dealers. Each car would be transported to a specific dealer for repair. The car would then be returned to the initial place.

Multi-franchising would be carried out unconditionally with no restrictions concerning separate showrooms and management. This approach will be more interesting for large dealers, who have the necessary financial resources. Offering many brands requires high investments and increases the complexity since the dealers need to combine different systems and processes. Furthermore, there is a risk of dealers selecting only the best selling models and brands with the highest margins and the customer satisfaction could be increasingly reduced. The customer could be forced to purchase an offered model that is not in line with its intention. If Mercedes-Benz cannot oblige its dealers to sell the entire range of models, it could face difficulties with less popular models. This could lead to the situation where manufacturers will not risk developing additional models. It is significant for Mercedes-Benz to convince its dealers to introduce new models despite the fact that it will take time before success is reached. The overall reduction of available models could
slow down innovation. The consequences could be immense for Mercedes-Benz and other manufacturers in an industry reliant on R&D and continuous innovation.

Multi-franchising could constitute as a threat to Mercedes-Benz’s brand. This, since the customers could perceive Mercedes-Benz as not being in line with the company’s brand identity in a multi-brand outlet. This is further strengthened by BEUC’s argument that one should not overstress brand loyalty since consumers will prefer multi-franchising. Moreover, this threat will be of minor importance given that many dealers will choose not to integrate several brands due to the complexity and high investments. However, there will be more actors engaging in multi-franchising, but it will most likely not be a real trend and the normal way of selling.

The supermarkets will not constitute a major threat for Mercedes-Benz in a short-term perspective. However, their role and development will be more substantial than in the scenarios where selectivity is in force. This, since actors could receive heavy discounts based on large orders. If the supermarkets would include Mercedes-Benz into their businesses, it could damage the company’s brand image since supermarkets are characterized by lower quality. Moreover, the Internet operators could cause problems if they sell directly from the manufacturers. The Internet operators could take advantage of the dealers’ investments at no costs by making the customers go to the dealer outlets to test and inspect the automobiles. Hence, the purchase would take place through the Internet and the dealers could face difficulties in surviving in the long run. BEUC is positive towards this development since it believes that the potential of the Internet is large and that it will enable a wide choice for the consumers. The challenge for the Internet operators will be to establish and sustain customer contacts.

In the long run, this scenario will be negative for most involved parties and it will not reach the Regulation’s objective concerning customer satisfaction. According to ACEA, this scenario represents the worst situation for the manufacturers, while BEUC is positive towards an abolition since it argues that the current Regulation has a negative influence on the consumers. CECRA stresses that an abolition would increase the manufacturers’ power, which could harm both competition and innovation. The most radical strategic option for the manufacturers would be to purchase their own dealers or sell directly to
the customers. Mercedes-Benz could utilize its current way of selling directly to e.g. leasing companies. This could be an option since premium brands have a financial advantage over volume manufacturers that are dependent on economies of scale. Hence, the Commission could come to restrict this practice since the manufacturers offer cars at lower prices limiting the dealers to compete. Finally, this scenario will force the manufacturers to expand geographically. Mercedes-Benz has turned this into an opportunity by considering the emerging markets in its scenario planning.

6.2.1.2 The “Modification” Scenario

The “Modification” scenario is based on an evolution of the Regulation, where the selective and exclusive distribution system will still be in force. The manufacturers are able to choose their distributors in a similar way that is done today and they would have requirements on their dealers’ operations. The manufacturers will expect their dealers to follow their sales targets. This scenario also indicates that volume discounts will not be offered, however, indirect volume discounts through premiums will exist. The Regulation will not require the link between sales and services, but the manufacturers will most likely require their dealers to maintain this link due to cost-effective reasons. Brand exclusivity will exist to some extent even though the former rules of multi-franchising, involving individual legal entities and separate management, will not be as strict as the current condition. As a result, the competition will be similar to today’s situation. Moreover, Internet and supermarket operators will not face beneficial conditions in this scenario. Finally, the Regulation will state that technical information has to be available for all parties.

In this scenario, the manufacturers would be able to select their dealers and impose qualitative and quantitative requirements. The competition of sales and service is expected to remain rather intensive. As a result, the consumers’ satisfaction will most likely increase due to lower prices, wider choice, and decrease in lead times. However, BEUC is of another opinion since the organization argues that a system based on selectivity and exclusivity creates inefficiencies and a need for additional players.

Although the Regulation will not require the link between sales and services, manufacturers will still obligé the dealers to make use of it. In line with CECRA, the manufacturers will most likely obligé the link, which will enable
lower distribution costs as well as ensuring environmental and safety standards. These standards could create opportunities for the manufacturers that adapt accordingly. With regard to the market conditions, Mercedes-Benz will most likely be forced to obligate its dealers to have the link in order to guarantee long-term stability.

Multi-franchising will be evident since this scenario involves less strict rules in comparison to the current system. However, its extent will be determined by the Regulation’s new conditions and the approach will most likely be less utilized, rather than the “Free-for-all” scenario. The most common way of multi-franchising will be to incorporate different brands belonging to the same group. This could create opportunities for large groups that are able to combine functions such as ordering systems and administration and thereby reaching synergy effects. This option involves high investments and it seems as if the dealers would prefer to stay within their own group rather than incorporating competing brands. It will be increasingly important for Mercedes-Benz to have well-established relationships and agreements with its dealers to ensure that they stay within the Group. If Mercedes-Benz offers its dealers a good proposition, the likelihood that the dealers are satisfied is large. If the dealers’ businesses are profitable there is no reason for them to choose another brand. Concerning brand image, Mercedes-Benz will most likely not be as negatively affected in comparison to the “Free-for-all” scenario. This since brand separation will be protected by the Regulation. The company’s well-established distribution network and brand image will prevent this issue from becoming a major threat.

The full availability of technical information and necessary training will be in line with the Commission as well as BEUC’s objective. This is a problem for Mercedes-Benz since the independent dealers have the same access of information as the company’s authorized dealers. The authorized dealers will no longer have additional information and will thereby risk losing their competitive advantage. However, Mercedes-Benz does not have much to fear since the overall demand of information from the independent dealers is relatively low.

The Internet and supermarkets will most likely not have a strong presence within the competitive field. Due to the selectivity, the supermarkets will have to fulfill the qualitative requirements appointed by Mercedes-Benz. This will
enable the company to prevent the supermarkets from selling its brand, since these operators’ goal is to offer many products at low prices. Moreover, the development of the Internet and the introduction of the Euro will make prices converge. Finally, this scenario would, according to ACEA, be most suitable since this industry is in need of long-term directives and policies.

6.2.1.3 The “Open Districts” Scenario

The “Open Districts” scenario involves an introduction of limited territorial exclusivity where the manufacturers are able to select the dealers. The limited territorial exclusivity means that there will be some restrictions on the location of branches and outlets. The manufacturers can impose qualitative restrictions on the dealers. Concerning quantitative requirements, the manufacturers will use sales targets, which cannot be based on specific districts. Although the Regulation will not allow volume discounts, indirect discounts through premiums will exist. The Regulation will not require the link between sales and services, but the manufacturers could, due to economical reasons, require their dealers to have this link. The Regulation will allow active marketing through personalized advertising outside the territories, reducing the barriers to some extent. Concerning brand exclusivity, the Regulation will ensure separate locations in order to maintain brand value and customer expectation. Hence, legal entities and separate management will not be imposed. Finally, the technical information has to be available for all parties. Internet and supermarket operators will be able to enter the market.

The removal of exclusivity is a step towards BEUC’s objective. However, less exclusivity will be of minor importance since it is anticipated that most dealers will focus on active marketing rather than expanding the business into other territories. One can argue that the issue of marketing across borders is not significant since it already happens through the Internet. Thus, it does involve the opportunity for Mercedes-Benz and dealers to attract more customers and expand their customer bases. The increased level of intra-brand competition will be beneficial for the company given that its dealers would constantly aim to improve their businesses in relation to each other, thereby enhancing the overall performance.

In a short-term perspective, the competition is expected to become more intense, resulting in converged prices. Thus, neither the overall competition nor
the customer satisfaction will change from the current condition in the long-term. This is mainly due to increased transparency through the use of Internet and the introduction of Euro. This is contradictory to BEUC’s assumption that less territorial restrictions would increase the competition. Further, the after-sales competition will most likely, in the long run, increase the competition and result in improved quality and reliability as well as reduced prices. In addition, the increased competition may possibly make small and independent outlets vulnerable, in comparison to large outlets, and be forced to either consolidate or go out of business. The consolidations will most likely occur at the ownership level and will not directly influence the number of outlets. Mercedes-Benz has already taken actions for restructuring its dealerships and this development will therefore not be as significant for the company. If the trend of consolidations becomes intensified, a market including fewer owners will lead to higher prices and improved lead-time. It could also result in increased efficiency, which will enable the manufacturers’ to enhance their profitability in the long run, enabling synergy effects.

The manufacturers will have the power to impose sales targets on their dealerships, but they cannot be based on territorial criteria. This condition could result in both advantages and disadvantages for Mercedes-Benz. It could be advantageous to control and forecast its dealers’ sales. Hence, there will be difficulties in forecasting sales for specific territories. Mercedes-Benz needs to pay more attention to the stated disadvantage since the Commission is negative towards companies that are able to make their national sales more preferable than parallel imports.

The supermarket development will not have a major impact on Mercedes-Benz since this type of outlets will not be able to fulfill the qualitative requirements. However, the company needs to be aware of the fact that supermarkets could influence the overall competition, which indirectly could affect the company negatively. This since the customer preferences could change because of a larger segment of volume cars offered at much lower prices. Mercedes-Benz could make use of the advantage in having the link between sales and service and consequently attract more customers in the competition with supermarkets. However, since the Commission’s aim is to remove the link, the company needs to be prepared for possible changes.
6.2.1.4 The “Open Services” Scenario

The “Open Services” scenario includes an end of territorial exclusivity and of the link between sales and services. This would remove the barriers between districts and open up the after-sales service market. Qualitative and quantitative distribution will be in force with regard to both sales and service. As a result, the manufacturers will be able to select the dealers they want to include in their network and set qualitative criteria such as the dealers’ buildings, technology, equipment, and marketing. Manufacturers could also demand their authorized dealers to provide after-sales service. However, the manufacturers have to supply spare parts to all repairers that meet the qualitative standards and that are accepted as after-sales service partners. Moreover, the dealers are allowed to engage in active marketing outside its territory. The repairers will be allowed to locate anywhere and they will be able to pursue multi-franchising, having the possibility to be supplied by manufacturers. Concerning the availability of technical information, it could be uncertain to some extent. The technical information has to be provided to the authorized repairers, while it is uncertain if they have to provide it for the qualified independent repairers.

In line with BEUC’s position, the removal of the link between sales and services would benefit the consumers. This scenario may possibly increase the number of repairers and reduce the maintenance prices. Concerning service, the consumers tend to return to the authorized dealers for repair during the first few years after a purchase. This time period resembles the guarantee. Thereafter, the consumers will most likely turn to other repairers, which in this scenario could become more evident due to the increase of players. In accordance with this and the objective of the Commission, customers will be able to compare the dealers’ quality and prices. This should be seen as a positive development and in the interest of the consumers. Today, the customers have too little knowledge and are constrained in comparing the prices and the quality. The customer will have a wider choice as a result of an intensified competition. This makes it more important for Mercedes-Benz to strengthen its customer relationships. The company needs to focus heavily on the concept of “Mobilo-life”, since it gives both parties long-term benefits. The customers receive a service and warranty package, while the company maintains its customer loyalty enabling a sustainable competitive advantage.
In a long-term perspective, large dealers and repairers will, through consolidations, most likely dominate the after-market. These repairers and dealers will be able to locate anywhere and they will have the ability to pursue multi-franchising. As a result, multi-franchising will be the most widely used business model. As CECRA states, strong and independent dealers would allow the market to have fair prices, intense competition, and higher quality. However, they cannot be too dependent on their local reputation. This development could harm the overall industry and lead to an overall lack of service outlets and higher prices, which could affect the customer satisfaction negatively. Moreover, the quality of the reparations might become poorer due to the de-linkage of sales and after-sales service. The quality could be dependent on the level of qualitative requirements the manufacturers are able to set. This scenario would also enable the manufacturers to decide which dealers they desire to include in their networks. Consequently, the manufacturers’ power, in relation to the dealers, could increase. Mercedes-Benz will still have the ability to choose and set qualitative requirements on its dealers in order to guarantee its image.

The service performed by the authorized and independent dealers is argued to be of equal quality. In spite of this, it seems as if the Commission has neglected the fact that the independent repairers only do limited services. The independent repairers have chosen the most profitable services that do not require heavy investments. Based on this, one can question to what extent the dealers work in the interest of the consumers. Besides, if tomorrow allows the dealers to decide whether to engage in sales and/or services there could be a threat of many dealers choosing not to offer services. The increased competition, which results in many dealers going out of business, could jeopardize the overall industry. Furthermore, the service coverage could be threatened, especially in sparsely populated areas and/or for specific and complex repairs that require extensive investments.

The access of technical information will not be guaranteed to all parties. The limited access will create difficulties for the independent dealers, since they will be restricted in offering a wide range of services due to limited availability and insufficient training. On the other hand, Mercedes-Benz can turn the limited availability into an opportunity. Its authorized dealers will have access to the technical information and necessary training. However, Mercedes-Benz has to take into account that the Commission has indicated the importance of a
higher availability for independent dealers and repairers and will most likely act accordingly.

6.2.1.5 The “Few and Large Dealers” Scenario

The “Few and Large Dealers” scenario involves an end to territorial exclusivity as well as the link between sales and services. Any dealer that meets the manufacturers’ qualitative standards is allowed to sell motor vehicles, but is not obliged to offer guarantees or after-sales services. As a consequence, the manufacturers are required to supply spare parts to all actors that meet qualitative requirements and accept them as after-sales service partners. These repairers can locate anywhere they desire. This involves Internet and supermarket operators as well. However, the manufacturers can demand the authorized dealers to offer after-sales service. Besides, the manufacturers will impose sales targets, but they cannot be based on districts. Within this scenario, the Regulation allows multi-franchising and requires a high availability of technical information to all parties.

The intensified competition, due to the entry of new dealers, will reduce prices for vehicles and after-sales services as an incentive for them to gain market share. However, in a long-term perspective, few large retailers are likely to remove reseller or after-sales service partners. The manufacturers and dealers that are able to build up efficient channels and invest the most will have the largest potential to survive. Consequently, this will lead to reduced customer satisfaction since consumers would have less choice for maintenance and repair as well as increased prices. Moreover, smaller product range could be apparent, since the manufacturers have to focus on only the most popular models. The fierce competition could in the future indicate fewer actors, representing an even more oligopolistic situation compared with today.

One difficulty for the manufacturers involves the entry of supermarkets. Although these actors have not yet been organized as a group, this scenario allows a larger potential for their development in comparison to the other possible outcomes. The manufacturers are required to provide cars to any actor that fulfils the qualitative standards. This could be problematic for Mercedes-Benz since it is not able to choose dealers based on preferences, which in turn could damage the company’s brand image. Manufacturers are currently reducing their stock and aiming to build automobiles in line with customer
orders. The supermarkets would buy the cars in large volumes and offer the vehicles at discounted prices, out competing the traditional dealers. Consequently, it will be more difficult to sell premium segment automobiles from stock and the supermarket will mainly offer automobiles within the lower segments.

The supermarkets will engage in multi-franchising, which thereby would increase the inter-brand competition in a short-term perspective. However, in a longer time perspective the inter-brand competition will be reduced and the barriers of the different segments diminished. This could damage the premium segment, involving companies such as Mercedes-Benz. This obstacle could be immense for the company’s brand image and it has to protect it by preventing supermarkets from selling its cars. Mercedes-Benz needs to use concepts, such as “Mobilo-life,” even more in order to maintain loyal customers. Besides, the supermarkets will most certainly only incorporate best selling models from each brand. ACEA is negative towards this development and argues that the consumer choice could be reduced. On the other hand, BEUC believes that the consumers would benefit from these new entrants and that the quality subsequently will adjust to market demand. The threat imposed on Mercedes-Benz will be similar as in the case of the “Free-for-all” scenario, where the brand image and the overall rate of innovation could be harmed.

In line with the conditions set by the Regulation, multi-franchising could be interesting for larger dealer groups that possess a stable financial situation. It would most likely not be an option for the average European dealer. Even though the conditions of the Regulation would be rather flexible, the dealers would still have to incorporate different systems for each company. Hence, there is a growing trend of incorporating several brands from the same group within the dealerships. With regard to Mercedes-Benz, brand separation will be one of the key factors in maintaining its brand image and it should continue with the strategy of separating different brands.

The situation for the Internet operators is similar to the supermarkets. These operators will establish only one outlet with the aim of having large volumes. This illustrates another reason for why Mercedes-Benz has to continue the restructuring of its dealerships in order to make use of volume discounts. Hence, the constraints of the Internet providers, to establish and maintain the customer contact, are still an opportunity for Mercedes-Benz to utilize.
Finally, this scenario could increase the stability of the system due to less control by the manufacturers. In line with CECRA’s objective, this scenario could be most preferable for the dealers since the unbalance of power could be reduced.

6.2.2 Scenario Discussion

We have found that most factors and their consequences are apparent in all scenarios. However, their features vary to a large extent and certain aspects are more obvious than others in the different scenarios, while the impacts have similar patterns. The aim with the scenario discussion is to give the reader an overall picture of the most relevant consequences of each scenario and the future Regulation as well as to function as an introductory tool to our conclusions and implications.

The “Free-for-all” scenario deals with companies acting unconditionally. The competition will be limited in the long run and there will be a risk of insufficient service and product coverage. The entry of supermarkets and the involvement in multi-franchising will have a large potential and is a major threat towards manufacturers’ brand image. The “Modification” scenario is similar to the current system, where selectivity and exclusivity are still in force. In contrast to the existing Regulation, the link between sales and services will not be required and there will be full availability of technical information. The actors that are pleased with today’s system will work towards its implementation. The “Open Districts” scenario involves the selection of dealers, but limited territorial exclusivity that could include some restrictions on locations. However, less exclusivity will not result in large changes since most dealers will mainly engage in active marketing rather than expanding across borders. The Regulation will not require the link between sales and services and there will be full availability of technical information.

Although the “Open Services” scenario means no territorial exclusivity and no link between sales and services, qualitative and quantitative requirements will be in force. Large dealers pursuing multi-franchising will result in lower quality, higher prices, and insufficient service coverage in the long run. The “Few and Large Dealers” scenario involves the end to territorial exclusivity and the link between sales and services as well. Large actors will dominate the
market resulting in restricted competition and higher prices. The supermarkets have larger potential in this situation than in any other scenario and constitute a threat to the manufacturers’ brand image as well as to the overall innovation.

One can argue that manufacturers within the premium segment, such as Mercedes-Benz, have less to fear from the expiry of the Regulation in comparison to the low price segment. This is mainly due to well-established positions based on strong brands, loyal customers, and efficient dealers. There are several characteristics that can be seen in each scenario, however, their significance vary to a large extent. Examples of these characteristics are brand image and the need for relationships. Moreover, we have identified additional strategic issues that are of importance to Mercedes-Benz’s strategy formulation, regardless of any possible outcome. The aspects of products and pricing are important to consider, thus, they will not have a specific influence on Mercedes-Benz in the five scenarios.
7 CONCLUSIONS & IMPLICATIONS

The purpose of this section is to draw conclusions based on our analysis of the empirical findings. The section is divided into the two areas of general conclusions and implications. The general conclusions answer our four research problems, while the implications give a solution to the main research problem at a managerial and theoretical level.

7.1 General Conclusions

This section is divided into three parts and involves the general conclusions of our four research problems. We have chosen to combine the conclusions for research problems 3 and 4, since they are interrelated. The most relevant aspects are included and the discussion aims to conclude our interpretations.

7.1.1 Conclusion of Research Problem 1

How are the European Union’s block exemption practices formulated and how do they influence the automobile industry’s distribution system?

The aim of the Regulation is to balance the involved actors’ different interests, improve the legal structure, enhance the creation of the Single Market as well as enable efficient competition. The Regulation was originally based on four objectives, thus, one can question to what extent these objectives have been reached. The following discussion involves the Regulation’s objectives and their influence on the industry. Our general assumption is that competition should be seen as the major element for achieving an efficient market, where the consumers’ demand is satisfied. The manufacturers should not utilize the Regulation and divide the EU market into several areas by keeping high prices in specific markets.

The European automobile market consists of several manufacturers controlling the market, at least in comparison to Japan and the US. This shows that the EU’s market conditions are in line with the Commission’s objective of effective competition. However, the trend towards fewer dealers and more consolidations could result in reduced competition. Therefore, we see a potential risk that the EU market is moving towards a development similar to
the Japanese and US markets. The risk of reduced competition is especially evident in the “Free-for-all” and “Few and Large Dealers” scenarios. This could affect the consumers negatively as a result of higher prices and limited choice. An additional aspect to the Commission’s objectives is the necessity of finding a balance of effective competition. An intensified competition could affect the car segments differently and could result in an overall lower quality. This since the prices could be the major tool for competing and differentiating. One should consider that, within the “Few and Large Dealers” scenario, the development of supermarket operators could threaten the existing players since the supermarkets only compete on price.

One can argue that the competition within services is limited as long as the manufacturers’ warranty is valid, since the customers are forced to return to a specific dealer. However, in a competitive environment the manufacturers need to offer some incentive that creates loyalty to ensure long-term earnings. With regard to the link between sales and services, the dealers are mainly dependent on offering services to ensure profitability. Therefore, even though the link in itself is not natural, we believe that dealers and manufacturers will most likely enforce it in any of the five scenarios.

Through our analysis, we have found that the interest for multi-franchising is large for several actors. However, some tend to neglect the fact that more brands do not necessarily mean more advantages and earnings. Incorporating several brands would mean high investments and increased complexity and therefore many dealers would probably not take the option even if the regulators would allow it. Therefore, one can question the demand for this kind of legislative change in the “Free-for-all”, “Open Services”, and “Few and Large Dealers” scenarios. We feel that especially the smaller and average European dealers would experience difficulties. Moreover, if multi-franchising is allowed, there is a threat that the dealers only choose to offer the best selling models and brands, especially in the “Free-for-all” scenario. In a long-term perspective, this could hamper the level of innovation, which is the basis of the theory of competition policy. The consequences could be immense for an industry that is highly dependent on continuous innovation. The consumers tend to overlook the fact that there are direct disadvantages connected to multi-franchising and that there is a reason for how the Regulation is formulated today. We believe that the negative consequences exceed the perceived benefits of offering more brands.
Concerning service, many highlight that the quality is similar whether independent or authorized dealers perform it. This might be true, but it is important for the Commission to consider that the independent dealers only offer a limited service range. The services are usually selected based on the specific service profitability. If the new conditions will allow the dealers to decide how to structure, there is a short-term risk that many dealers could go out of business due to intensified competition. Therefore, the authorized dealers could choose to specialize and become independent. We have found that this would be most evident in the “Open Services” scenario. We see this as a problem, since the consumers are constrained due to insufficient service coverage or specific repairs. Moreover, another obstacle involves the availability of technical information where the independent repairers have limited access. Difficulties could arise if the information was made available for all dealers in the scenarios of “Modification and “Few and Large Dealers”, since this is an example of how the authorized dealers compete. We believe that the Regulation should involve some qualitative requirements, the question is only to what extent.

The involved actors seem to agree that there is an imbalance of power between the dealers and the manufacturers. We argue that it will take time before a Regulation will be able to reduce these power differences, since it is deeply engraved in the way of conducting business. Still, we believe that the manufacturers who are utilizing the Regulation and their power to their own benefit could lose in the long run. The manufacturers who use their power to enhance the relationships with their dealers will have an advantage.

One can question the Commission’s aim to reach objectivity of the proposal. There are still many local markets within the EU, which contradict the concept of the Single Market. It will take time before this development is accomplished in accordance with the Commission’s goal, something it seems to disregard. Moreover, it is difficult to understand how the regulators can form a proposal that defines the best system for all involved actors. One other constraint is that each industry organization consists of an enormous amount of various companies and many different interests. Although the industry representation is based on the opinions of the majority of the members, there is a risk that many members are of another opinion. As a result, the network surrounding the Commission needs to be less influenced by only one party and the overall opinion needs to reflect more actors. It should be in all parties’ interests to
reach objectivity and to be a part of the network in order to influence future
decisions. The discussions must function across the different organizations.
Moreover, the Commission possesses extensive power in the decision-making
process in contrast to the involved actors. Therefore, we believe that the
proposal could indirectly be reflected by subjectivity.

The above discussion has given a conclusion of our first research problem,
however, we believe that further discussions of the Regulation will go on
forever. One will constantly question whether the block exemption regulation
in itself has constraints or if it is the way it is applied.

7.1.2 Conclusion of Research Problem 2

How do the involved actors position themselves with regard to the European
Union’s block exemption practices?

Based on our analysis, the four involved actors have a large interest in this
particular situation and will most likely influence the manufacturers’ future
strategy formulation. We have drawn the conclusion that all of them have to be
involved in networks in order to reach the best possible Regulation. The parties
have different perspectives and objectives with regard to the existing system.
The actors’ positions are mapped in relation to each other in figure 12, based on
whether they have a positive and/or negative standpoint towards the two
dimensions of the system, i.e. exclusivity and selectivity.
The involved actors need to be a part of the network of relationships that surrounds the Commission. It is vital for the organizations to understand the importance of linking the practices and policies to their own businesses. By being a part of the network and constant dialogues, they have the possibility to influence future decisions. However, the level of involvement is different among the actors. ACEA and CECRA have a large responsibility towards their members and they have to make more efforts in promoting themselves within the network. Today, these organizations, especially ACEA, have reached acceptance and a well-established position within the network. On the other hand, it seems as if BEUC is in the initial stage of establishing a position even though the Commission has operated in the organization’s interest for some time. BEUC is strengthening its approach towards the EU, but has not yet reached the same level as ACEA and CECRA. Through ACEA’s level of involvement, the organization is to a larger extent able to attain inclinations from the discussions and its own observations of the Commission. Consequently, both CECRA and BEUC are forced to enhance their positions.
even further. We feel that the automobile manufacturers are fortunate to be represented by an organization, which has a well-established position within the EU network. Its position within the network will especially be important in the “Free-for-all” and “Few and Large Dealers” scenarios since these outcomes represent major uncertainties for the manufacturers.

We have drawn the conclusion that the position of the consumers needs further attention in order to enable the industry to move in the right direction. Although the Commission aims to operate in the interest of the consumers, one can argue that BEUC’s position needs to be further strengthened. The organization’s approach towards the Commission is dependent, to a large extent, on financial resources and therefore this development will not happen over night.

The additional channels of the Internet and supermarkets have been given large attention. We see that the Internet will mainly remain as a source of information in the near future since the consumers tend to be more physically engaged in the purchase due to the life-long investment. On the other hand, supermarkets may possibly have a more positive development and potential to gain a position in the low-priced segment in the “Free-for-all” and the “Few and Large Dealers” scenarios. However, the low prices could result in reduced quality and customer satisfaction. If the Internet and supermarket operators are to have a future in this industry, they need to improve their promotions. This in order to be a part of the network and compete with the manufacturers by reaching acceptance with the Commission and the other involved actors.

Due to the various interests, the discussions that will lead to the final proposal have become increasingly complex. It will be difficult to create one system that will be suitable for each of the involved parties. One should also keep in mind that restructuring is not always good in this industry, since the actors involved require stability. We conclude that the parties to a large extent are acting in their own interests and the network of relationships needs to be mutual. We think that the actors can learn more from each other and become less vulnerable by utilizing the relationships.
7.1.3 Conclusion of Research Problems 3 & 4

How is/will a Multinational Corporation, within the automobile industry, match its internal organization with the European Union’s block exemption practices?

The extensiveness of the future changes will determine the risks and opportunities as well as the length of the transition period for the manufacturers. There is a risk with a short transition period, giving the companies insufficient time to adapt to the new conditions. Thus, the companies that do not need as much time to adapt could see a longer transition period as an opportunity. If they also have engaged in scenario planning, they will have an additional advantage, since scenario planning enables preparations and makes companies less vulnerable to the external changes. We believe that scenario planning will become a competitive tool for many companies, especially for automobile manufacturers. The industry requires stability and with the changing external environment, this has become essential in order to maintain the level of innovation and technology.

Although manufacturers are speculating in the Regulation’s possible outcome and its effect on business operations, there are actions that need to be accomplished whatever the scenario will be. The manufacturers are in need of restructuring their dealer networks in order to maintain the control over the dealerships. The future changes will require strong and efficient dealerships in order to be less vulnerable to instability. This is needed in an industry where all the manufacturers are operating in similar ways, the so-called “straightjacket effect.” Moreover, well-established relationships are vital between the manufacturer and its dealers. Currently, the manufacturers are aware of the differences in power and are using their control of the dealers instead of enhancing the relationships. This must come to an end. The manufacturers should aim to reduce the imbalance of power and allow the dealers to be a part of the decision-making process. Apart from this, it is important for the manufacturers to establish a constant dialogue with the Commission. This since their internal and external relationships as well as their relations to other organizations are under institutional influence. This dialogue should aim to improve the companies’ knowledge of EU Regulations in order to transform them into daily operations. We feel that this is necessary. Furthermore, the
companies who have the knowledge about the current system will be in the forefront and develop a competitive advantage, since it will be less problematic for them to adapt to the new conditions.

Besides, one should take into consideration that this industry should not be compared with other consumer goods industries, since automobiles are unique in many respects. The purchase of a car is a high-value transaction and one of the most expensive purchases a consumer will make during his/her lifetime. Therefore, the consumers tend to be more dedicated in the purchasing process. Due to the complexity and high costs, the consumers demand a lot from the sales people throughout the product life cycle. This makes the pressure on the manufacturers as well as the dealers very strong. As a result, we suggest that the manufacturers have to compete through their internal organizations as well as the dealer network by communicating the strength of their brands. The brand identity needs to match the brand image with regard to the products, distribution, and service systems.

One other aspect involves safety and environmental standards, which will be increasingly important in the future. The increase of environmental awareness will result in more complex standards, making it more complicated for the manufacturers to operate accordingly. Therefore, they need to make large investments and efforts in this area and become socially responsible. The manufacturers that become more environmentally friendly will obtain a competitive advantage. In a long-term perspective, we would like to highlight the importance of considering that the oil resources will not last forever. Finally, the automobile production involving alternative fuels will become a major element in future innovation.

One can argue that the match between the manufacturers’ current operations and the external environment are based on tactics. However, if the extreme scenarios of “Free-for-all” and “Few and Large Dealers” will force companies to for instance integrate vertically or establish new relationships, it will no longer involve tactics. Instead, it will be about strategy. As a consequence, we consider that the expiry of Regulation 1475/95 leaves the manufacturers in a very challenging position, involving both opportunities and threats.

Based on our situation analysis of the external environment and in accordance with Grant’s theory, we have identified the most relevant factors in order to
enable future strategic directions. These factors are: distribution network restructuring, lean distribution and production, geographical expansion, network and discussion participation, threat of entry, consolidations and over-capacity, and environmental awareness.

7.2 Implications

This section presents the managerial and theoretical implications for our main research problem that is stated below. The aim of the managerial implications is to give suggestions for how Mercedes-Benz can develop its strategy formulation. These strategic directions are classified based on importance and relevance. The theoretical implications include a description and an explanation of our modified theoretical model.

<table>
<thead>
<tr>
<th>Main Research Problem:</th>
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<tr>
<td>How can a Multinational Corporation, within the automobile industry, develop its Strategy Formulation in order to cope with the expiry of the block exemption practices within the European Union?</td>
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7.2.1 Managerial Implications

We would like to begin by stressing that a premium brand, such as Mercedes-Benz, has less to fear from the expiry of the Regulation 1475/95 in comparison to the low priced segment. The company has a well-established position in the market through strong dealerships, loyal customers, a strong brand, and attractive products. Therefore, it is important to consider that the strategic direction should be based on utilizing the company’s current position in order to develop unique capabilities. Although the current position is utilized, improvements can be made for obtaining a long-term success. We have realized that there are common strategic directions for the five scenarios. However, the company has to consider that some strategic elements have to be adapted in line with factors characterizing the different scenarios. The strategic elements are classified in line with their importance, starting with the most significant in relation to the main research problem.
1. The Mercedes-Benz Brand

We have drawn the conclusion that the brand image is one of Mercedes-Benz’s most important strengths. The strong brand is a valuable asset and it is essential for the company to make use of it in order to cope with the legislative changes. Hence, it could be risky if the company relies too much on this asset. Its position needs to be based on other competences as well. Although the company has a well-established brand image, the scenarios will, due to the conditions, require different efforts in preserving the brand. The establishment of supermarkets in the “Few and Large Dealers” scenario could be a threat to the company’s brand since these operators approach the customers differently by offering poorer quality and lower prices. Moreover, strengthening the brand will be harder, but increasingly important, if multi-franchising will be in force and an accepted method.

Today, the brand identity represents several features, which we believe is hard to communicate since it can give the consumers a vague perception. For this reason, Mercedes-Benz should not try to add additional features, but concentrate on strengthening the existing values of being a premium brand in order to prevent gaps between its identity and image. The company needs to communicate its brand through the dealers. If the dealers are dedicated to the brand and work in line with the company’s values, Mercedes-Benz’s image will be enhanced. However, the company could face problems in the “Free-for-all” scenario given that dealers would choose only the best selling models and disregard the long-term advantages of incorporating a strong brand. Moreover, we suggest that the use of public relations can strengthen the brand image even further. It is especially vital in uncertain situations to give indications of future initiatives to reach attention in media. Early initiatives will be beneficial since many of the competitors are waiting for the final proposal before presenting their future plans. This approach could be more advantageous in the most extreme scenarios of “Free-for-all” and “Few and Large Dealers”. Regardless of any possible scenario, the most important part of the Mercedes-Benz’s brand is its products. A company may have a well-established network, but if its competitors have products that are better suited for the customers’ needs, then this is the biggest challenge.
2. The Triangular Relationship

We believe that a strong relationship with the dealer and consumer will become one of the most essential strategic initiatives in order to cope with the new conditions. We suggest that this relationship needs to be based on mutual terms and be more of a triangular character including the three parties: Mercedes-Benz, its dealers, and consumers. All parties contribute to the value that the end consumers receive and it is therefore important to establish relationships throughout the whole chain. The structure of the suggested relationship is illustrated in figure 13.

Figure 13: The Triangular Relationship

The introduction of the company’s “customer care” program illustrates its objective and willingness of establishing a two-way communication with the consumers to increase customer satisfaction. The unique service and warranty package of “Mobilo-life” is an example of how the company tries to build up a long-term relationship with the customers, offering more value for money. This package enables the company to enhance loyalty and be less vulnerable to the changes of the Regulation. “Mobilo-life” will become increasingly important in the “Modification” and “Open Districts” scenarios where the competition is expected to stay the same.

We have identified the importance of establishing relationships throughout the whole chain and suggest that Mercedes-Benz needs to enhance its focus on the dealerships. This since we have recognized certain constraints in these relationships. In order to prevent the threat of new entrants in the “Free-for-all”
and “Few and Large Dealers” scenarios, we recommend the company to implement a “Dealer Care Program”. The program would contribute to the triangular relationship and have a similar purpose as the “customer care” program. This new concept should focus on practical initiatives and involve activities such as training, constant dialogues, and evaluations. Apart from business relations, Mercedes-Benz could arrange social events for the dealers and achieve personal relationships. Although high investments are needed to implement this program, Mercedes-Benz needs to promote that long-term benefits would be obtained through this program.

The implementation of our suggested “Dealer Care Program” needs to begin with appointing an organizational function, involving “dealer care” specialists. The main role of this function should be to coordinate and develop the existing relations between the company and its dealers in line with the program’s objectives. Operating in the EU requires the company to adapt the program locally due to differences between the Member States, which needs to be included in the tasks carried out through the “dealer care” specialists. This will enable the company to overcome the existing gaps in several relationships, often dealing with cultural barriers. To overcome these barriers will be advantageous in the scenarios involving an end to territorial exclusivity, mainly in the “Free-for-all”, “Open Services”, and “Few and Large Dealers” scenarios. We suggest that the program is introduced at locations where the dealers have been established for a long time and where the local network is not as complex. This is recommended in order to facilitate the way of operating and coordinating the different parts of the relationships.

Further, we believe that all activities should be formed and planned by both parties. This will enable cooperation and the possibility to take advantage of each other’s knowledge and experience. Also, in order to balance seasonal and cyclical declines and ensure a relatively stable income for both the manufacturers and the dealers. Moreover, Mercedes-Benz should not intentionally utilize the Regulation and contracts to its own advantage. The company should not push the products on to the dealers through e.g. sales volume objectives and volume based bonuses. However, we stress that a regulation is needed but not to the extent that it limits the relationship to develop commitment and trust.
We have drawn the conclusion that there is a need for an overall understanding of identifying the strengths and weaknesses of each party in the triangular relationship to cope with the legislative changes in any possible scenario.

3. Knowledge of Legislation

A deep understanding of the legislative framework needs to be incorporated into the company’s planning and operations. We believe that if Mercedes-Benz could improve its network relations with governmental institutions and regulators, the company could more easily make use of the opportunities that arise. If the position within the network is too limited, problems could arise. One has to consider that EU regulators always will aim to limit the imbalances of power between the involved parties. Therefore, the importance of linking the Regulation knowledge with the company’s strategic formulation will never be less significant. If a deep knowledge is obtained, the company will become less vulnerable and be able to avoid negative consequences, such as imposed fines. The knowledge is currently essential since preparations for the legislative consequences in each scenario are needed.

4. Continuous Restructuring of the Distribution Network

We believe that Mercedes-Benz’s competitive move of restructuring its dealer network is in line with the current market conditions of preparing for legislative changes. We would like to highlight that Mercedes-Benz should continue its current approach of establishing its own retail businesses to better deal with the threat of a saturated and highly cyclical market. This has proven to be successful in other consumer good industries. However, our assumption is that since the restructuring requires large investments, it would be most beneficial in a business point of view to only locate these outlets in key areas. The key areas of large European cities generate a large customer base and ensure long-term profitability through the company’s control. Moreover, these retail businesses will enable Mercedes-Benz to maintain and possibly enhance its brand image. The company will have a direct control over fewer and larger dealer outlets. The restructuring will enable the company to be better prepared in the “Free-for-all” and “Few and Large Dealers” scenarios where the Internet and supermarket operators will constitute as a major threat to the company’s brand image.
5. Price

Since price differences are of high priority to the Commission, we believe that Mercedes-Benz has to carefully follow the development regardless of any scenario. We have seen that some initiatives of harmonizing the prices have been made, which is positive since the Commission argues that the existing price differences have a large economic impact. It could be evident that the majority of the manufacturers will be forced to have similar prices across the Euro zone. Therefore, we believe that Mercedes-Benz cannot neglect price competition. Mercedes-Benz needs to keep the prices at the current level in the large markets and make adjustments in the smaller markets. Besides, in some cases, the price levels need to be adapted to local differences in tax and exchange rates. In order to provide better transparency, the company should give the dealers net prices of the involved models, which could enhance the possibility to compare and operate efficiently in the Single Market.

6. Environmental Awareness

Regardless of any outcome, a vital component of the future strategy is environmental awareness. We believe this awareness is here to stay. It is already a part of the social values and attitudes and will most likely affect businesses even more in the future. In Europe, the responsiveness of problems associated with transport, pollution, and traffic will increase the pressure for more standards. As a result, the competitiveness will to a large extent be controlled by environmental policies. Mercedes-Benz needs to incorporate these factors into the future strategy formulation in order to prepare for additional legislative changes. Within a few years time, alternative fuels will most likely be a necessity since the resources of oil will not last forever. As far as we know, Mercedes-Benz is investing in technology and innovation in making its products and operations more environmentally friendly. However, if this is going to become a competitive advantage for the company, it ought to communicate its social responsibility through the customers. This has to be accomplished by integrating the dealers into this responsibility and enable mutual benefits. If the dealers succeed in communicating this concept in their daily operations, the image of the dealers will be enhanced as well. This communication could be further enhanced through “The Triangular Relationship” illustrated above.
7.2.2 Theoretical Implications

The theoretical implications involve a presentation of our own constructed model, which has been generated based on specific elements of the theoretical framework. The incorporated theories have shown to be useful when evaluating the automobile industry with regard to the future block exemption practices within the EU.

There is a wide variety of literature involving strategic concepts as well as scenario planning. However, in order to find a solution to our research problems, we found it suitable to complement and modify the existing theories. The chosen theories have functioned as a base for our analysis. From this, we developed a theoretical model, which has contributed to the conclusions and implications of our study. The model can facilitate the process of companies adapting their internal organizations to the changing environment by making use of scenario planning. Since changes are occurring at a rapid pace, companies are forced to make preparations at an early stage. By linking the companies’ internal and external conditions, threats and opportunities can be identified and incorporated into the different scenarios.

7.2.2.1 Strategy Formulation

The recognition of a rapidly changing environment has encouraged the development of different methods for strategy formulation. The fundamentals of strategy formulation involve the purpose and direction of the company. The strategic direction adopted by the business will determine its internal strengths and weaknesses, linkage to the external environment, and future intentions. A strong strategic position is a prerequisite to assess the opportunities in order to avoid being vulnerable to external changes. Consequently, a framework for formulating strategies is fundamental for companies, especially within the automobile industry, to adapt the current strategy. Figure 14 illustrates our theoretical model and framework. The two main elements are the situation analysis and the future strategy formulation.
Figure 14. The Framework: Strategy Formulation

Source: Own Construction based on the Theoretical Framework

Situation Analysis

As illustrated, the first stage of the model involves a situation analysis of the internal and external environments. The purpose of the situation analysis of the internal environment is to understand the company’s business idea and identify the current strengths and weaknesses. The goals and values of the company should be clearly formulated and be related to future actions. The company has to recognize its resources and capabilities and evaluate which are of most relevance for the company. The purpose and direction of the company have to be in line with the resources and capabilities as well. The situation analysis also involves an evaluation of the external environment, where opportunities and threats are realized. Areas included in this environment are the overall market conditions, influential organizations and institutions, as well as competitive factors. As a part of the external setting, the network institutions model plays a
significant role. It has become vital for companies to engage in networks and be a part of different relationships in order to enhance the functioning of the business environment. The EU is one example of an influential institution, which has a large impact on the companies’ ways of conducting business.

The internal and external environments should be combined in order to create a well-functioning strategy. Companies are continuously engaged in different strategic decisions that deal with creating, changing, or maintaining the overall strategy. It is necessary for companies to develop a strategic vision that will provide the directions and purpose for the future strategy. This could facilitate the company’s preparations for emerging conditions that are not yet in place. Before advancing to the next step, the obtained knowledge of basic trends and future opportunities and threats from the situation analysis has to be integrated. This integration enables preparations for possible outcomes and the use of future strategy formulation within the identified scenarios.

**Future Strategy Formulation**

The next step of the strategy formulation process includes preparing for the different future outcomes. The company needs to plan for scenarios and make use of TOWS and scenario planning.

In order to evaluate the uncertain situation, an understanding of the key variables in the external and internal settings has to be reached. The scenario planning should function as a method for how to evaluate the consequences of the changes, both externally and internally. Shoemaker’s theory is one example of how strategy formulation can be facilitated through scenario planning. The company can make use of the scenarios and test if the current strategies’ relevance and consistency stay the same if one scenario materializes. If a small change occurs, the company has the opportunity to make use of the existing strengths. However, it is important to consider that the future strategic direction should be based on utilizing the current resources in order to develop unique capabilities.

Our theoretical model is not only applicable to the chosen research area, but it could also be relevant if the manufacturers have to engage in this process again in a few years. This since a new regulation most likely will have a limited time period similar to the current Regulation. Besides, the model is not only
applicable to the automobile industry. The method we have used could be beneficial for other industries as well and generalization is therefore possible.
8 AREAS FOR FUTURE RESEARCH

Our area of investigation involves a number of challenging opportunities for future research. Our chosen research area has shown to be a wide-ranging and complex subject involving many significant factors. This subject could therefore contribute to various areas for further investigation. With the experience and knowledge obtained during our thesis writing, we believe that we would still today choose this area of investigation. It has given us the overall framework of the regulators, the Regulation 1475/95, and the positions of the involved actors. This framework has enabled us to analyze the automobile manufacturers’ strategies in the way we wanted. We will in this section give suggestions for areas that we believe could be interesting to investigate further.

One major challenge for the future researcher would be to evaluate the future outcomes of the proposal given by the Commission in the end of 2001. The follow up of our study would be interesting since it would give us an indication of how we succeeded in our speculations and predictions based on the empirical findings. With the given proposal the strategic direction for the automobile manufacturers could be developed and possibly adapted to the new conditions.

Apart from the final proposal, it could be encouraging to engage in evaluating the development of one of our identified factors. One example could be to look into the factor of multi-franchising where brand image and identity are becoming increasingly important within the automobile industry. Today, the car manufacturers need to differentiate from its competitors in many ways where we believe that the brand identity is one major component. This would also enable the researcher to study other theories linked to branding, which could contribute to the companies’ brand development. One other option could be to analyze the development of Internet. In comparison to other consumer goods, this channel has not yet developed to the same extent in the automobile industry. Today, the Internet is mainly used as a source of information, however, there are actors waiting for the Internet to boost even in this industry. The price issue has also been an element for discussion. The existing price differences are by many seen as a problem within the automobile industry and
could to some extent be dependent on the harmonization of the Euro. Therefore, one other future research area could be to link the automobile industry to the creation of the Single Market.

Future research could also involve approaching the situation from either a dealer perspective or consumer perspective. With regard to the dealers, there is a general belief that their existing position is inferior to the manufacturers. It would therefore be interesting to analyze their situation and how they should act towards the manufacturers in the future. Concerning the consumers, one can argue that they have not reached full acceptance by the involved actors. The objective of the Commission is to promote the interest of the consumers and the recommended research problem could be formulated: How should the Consumer associations, within the automobile industry, promote and compete with ACEA and CECRA?

One current issue within the EU deals with the accession of countries such as Poland, Hungary, and Czech Republic. Their membership could change the market conditions and the way companies are acting. It could be interesting to investigate how it will affect the European automobile industry. The question is how it would affect for instance the location of production facilities and the overall price development.

The final possible research area could be to compare the European distribution system with the Japanese and American structures. Many actors believe that the European dealer networks would benefit from adopting the American way of structuring the channels. Positive and negative aspects of the different systems should therefore be investigated. This evaluation could lead to a proposal more suitable for the involved parties.
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10 APPENDICES

10.1 Appendix 1. Articles 81 & 82

**Article 81 of the European Community Treaty (ex Article 85)**

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:
   a) directly or indirectly fix purchase or selling prices or any other trading conditions;
   b) limit or control production, markets, technical development, or investment;
   c) share markets or sources of supply;
   d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
   e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:
   - any agreement or category of agreements between undertakings;
   - any decision or category of decisions by associations of undertakings;
   - any concerted practice or category of concerted practices, which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:
     a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
     b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

*Source: www.europa.eu.int/, September 4, 2001*
**Article 82 of the European Community Treaty (ex Article 86)**

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market insofar as it may affect trade between Member States. Such abuse may, in particular, consist in:

a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
b) limiting production, markets or technical development to the prejudice of the consumers;
c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

*Source: www.europa.eu.int/, September 4, 2001*
10.2 Appendix 2. The Position of the Internet and Supermarket operators

Virgin Cars

Virgin Cars represents one actor of the Internet operators, which are only able to operate as intermediaries under the current Regulation. Virgin Cars does not believe that the objectives of the Regulation have been achieved since it hampers competition and it is not beneficial for the consumers. (Branson, February 13-14, 2001) The Chairman of Virgin Cars, Richard Branson, is of the opinion that the car prices could be reduced by 40-50 percent if the current Regulation was abolished. (European Report, September 12, 2001) There are several obstacles to an efficient market. The manufacturers are preventing consumers from purchasing an automobile in the market they prefer. Manufacturers are holding back prices and specifications, violating the directives on VAT as well as charging unfair prices for RHD automobiles in LHD markets. There is a need for direct supply to independent dealers in order for the market to function effectively. Moreover, any changes in the current Regulation has to recognize the Internet operators as actors and not only as intermediaries.

Cardoen

Cardoen represents one actor’s position with regard to supermarket operators. It indicates that Regulation 1475/95 is affecting Europe negatively since it harms the consumers as well as the automobile sector. The CEO of car supermarket, Karel Cardoen, argues that a free market would be in the interest of the consumers, dealers, and manufacturers. An abolition of the Regulation could result in an increased number of distribution channels, intense competition, lower prices, and a wider choice for the consumers. Moreover, a free market would result in several advantages for the manufacturers. It would enable them to make worldwide savings on dealer support as well as on overhead costs. Other advantages are increased production, reduced retail prices, and improved utilization of production capacity. Besides, Cardoen is a strong opponent of the General Exemption 2990/99, since it would increase the manufacturers’ power and it would be the worst situation for the consumers and the distribution of automobiles. (Cardoen, February 13-14, 2001)
10.3 Appendix 3. Interview Guide

Subjects for Discussion

The Automobile Industry (EU-market)
The Past Changes within the Industry
Current Trends
Key Uncertainties in the Past and Future
The Competitive Forces of the Market
Opportunities and Threats
The Major Strategic Challenge for car manufacturers concerning the Expiry of the Block Exemption

Your and Your institution’s role with regard to the Block Exemption Regulation
The role of the involved actors and their influence
The process of decision making, right of veto, involvement of outside parties
Foundation of the decision (different scenarios?)
Most important factors to consider with regard to the decision
Transition period of a possible new Regulation
Vertical agreements/Umbrella
Overall competition
The Distribution System
Service
Pricing Issues
The Evolvement of Parallel imports
Internet and Supermarkets, importance and progress
The Future Scenarios of the Automobile Industry
The Involved actors Future Actions and Strategies

Mercedes-Benz

Company information
Size of the company
Annual turnover/growth
Core competences
Advantages and disadvantages with the current system
Company’s scenario planning
The different Scenarios (strengths, weaknesses, opportunities, and threats)

Overall resources and capabilities
Goals and values, vision & mission
Corporate culture
Strategic fit, internal and external environment  
External environment analysis, Industry information  

Distribution system (Service, parallel imports)  
Independent and authorized dealers (Technical information, price, intellectual property rights, secret know-how)  
The relationship with the authorized and independent dealers  
Competition inter-intra brand & European market  
Pricing issues, Policy and strategy  
Additional channels of Supermarkets and Internet operators  

The company’s Internet development  
Covisint, Virtual marketplace  

Lifetime guarantee, Mobilo-life  
CharterWay concept  
Bonus system  
Education and training for the employees
Appendix 4. Scenario Guide: An evaluation of the possible scenarios considering the Block Exemption Regulation and its impacts on the automobile industry

The following table illustrates five different scenarios that we aim to include in our research concerning the possible outcomes of the block exemption practices. We have chosen seven main areas for our investigation. Please, mark positive (+) or negative (-) impacts (long-term, around five to ten years), with regard to Scenarios 1-5 as well as the listed factors. If the scenario indicates both positive and negative impacts, mark (+) and (-) and give comments. The impacts should be evaluated from the current situation, where a (+) illustrates that the specific scenario represents a better situation for the chosen factor.

Below You find the characteristics of the different scenarios:

Scenario 1: The “Free-for-all” Scenario

- No selective and exclusive requirements on sales and services.
- Multi-franchising is allowed.
- Sales targets not based on market situation.
- Full availability of technical information to all parties.
- Large volume discounts will be offered.

Scenario 2: The “Modification” Scenario

- Selective and exclusive distribution still in force.
- Less strict rules of multi-branding.
- Internet and Supermarkets having weak positions.
- The link between sales and service will not be required by the Regulation, but most likely by the manufacturers.
- Technical information available for all parties.

Scenario 3: The “Open Districts” Scenario

- Active marketing through personal advertising possible.
- Full availability of technical information.
- Sales targets can be used, but not based on territories.
- The manufacturers can select their dealers based on a selective and limited territorial system.
- The link between sales and service will not be required by the Regulation, but most likely by the manufacturers.
- Qualitative requirements possible.
Scenario 4: The “Open Services” Scenario

- Will enable more repairers to become authorized (official)
- The manufacturer will still have qualitative criteria on the dealers.
- The availability of technical information is uncertain.
- The car manufacturers can decide which dealers they should include in their network.
- Active marketing outside the territory will be allowed.
- Intra brand competition and Inter-brand competition, in accordance with the current system

Scenario 5: The “Few and Large Dealers” Scenario

- Enable several mega-retailers to unite with large after market players
- Any dealer that meets the manufacturers’ qualitative has the right to sell automobiles without being required to incorporate after-sales service or guarantee.
- Easy access to technical information
- Multi-branding is allowed
- Sales targets can be used, but not based on districts

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Please, give comments on each scenario based on Your choice:

Scenario 1:

Scenario 2:

Scenario 3:

Scenario 4:

Scenario 5: