UNIVERSITY OF GOTHENBURG

DEPARTMENT OF APPLIED IT

DIRECT-TO-CONSUMER MODEL IN THE AUTOMOTIVE INDUSTRY

The impact of transition to a direct-to consumer business model by an incumbent manufacturer on its retailers: a case study of Volvo Cars

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Thesis:	30 hp
Program:	MSc. Digital Leadership
Level:	Second Cycle
Year:	2022
Supervisor:	Aleksandre Asatiani (academic) & Lars Westlund (industry)
Examiner:	Jonas Ivarsson
Report nr:	2022:046

Abstract

Digitalisation has enabled and shown the opportunity to car manufacturers. They are transforming themselves and a by-product of change is the transformation of their business model. Digital technologies have enabled manufacturers to connect directly with consumers. As a result, they can direct transact to buy a car from the manufacturer thereby bypassing the retailers. Several manufacturers have started taking steps towards the direct-to-consumer model. The study aims to analyse the impact of the transition to direct-to-consumer sales from the traditional dealership retail model by an incumbent car manufacturer. The study uses a case study design where retailers from the UK market were interviewed. The findings suggest that retailers find it hard to see the commercial viability of this model for themselves. They fear losing revenue and control over their entrepreneurial abilities. They also face various dilemmas during the process such as whether should they wait and watch and only reach the situation or should they proactively grab the opportunities in the agency model. They also see a tension between over and under-communication. However, they also observe opportunities in terms of saving in inventory costs, opportunities for smart repairs and being a one-stop shop, such that the future of the retailer site will be that of an experience centre.

Keywords: direct-to-consumer, digital transformation, automotive, retailer, retail strategy, automotive retail strategy

Acknowledgements

I am feeling grateful to everyone who supported me during my work on this thesis. First of all, I wish to acknowledge the support and guidance from my supervisors Aleksandre Asatiani and Lars Westlund. Second, the numerous respondents, retailers from the UK, who participated in the interviews and shared with me their many insights on this topic. It was really a pleasure to conduct the interviews and learn more about the perspectives of the retailers. Third, I wish to acknowledge the support of my mentor Michael Arefäll. Michael has helped me to understand the details of the automotive retail business, clarifying doubts and guiding me from time to time to interesting knowledge sources. I will always remember Michael's early morning 6 AM masterclasses on Consumer Experience, Automotive Retail Business and various other topics. Lastly, writing this thesis has been an activity that blended the barriers between work and private life. In spite of this, my wife Nadine supported me throughout and helped me to work on this project, even during the odd hours of the day. I soon wish to return to you the same possibility, so you can finish your PhD. My son, Anant, the light of my life, in his own way supported me by showing happiness about the small things that are important in life.

Chandu

To Nadine and Anant

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1

Introduction

Digital Transformation has become a necessity. Across industries, organisations of all shapes and sizes are demonstrating this reality. Three major factors are the drivers of this change: digital technology, digital competition and changing consumer behaviours (Gupta, 2018; Lamberton & Stephen, 2016; Verhoef et al., 2021; Verhoef et al., 2017). They are fundamentally transforming the business models of organisations. Likewise, it is enabling them to explore new innovative offerings (Bharadwaj et al., 2013; Kohtamäki et al., 2020; Sjödin et al., 2020).

The maturity and acceptance of digital transformation are heterogeneous across industries. Sectors such as ICT, retail, media, finance & insurance and professional services are more digitally mature than others (Gandhi et al., 2016). One of the industries that have lagged is the Automotive Industry (Hanelt et al., 2015; Sommer et al., 2021). There are some exceptions to this, such as Tesla. However, none of the incumbent automakers truly capitalised on digitalisation. As a new entrant, Tesla had the advantage of building itself from scratch. They invested heavily in digital capabilities and focused their business model on the 'direct-to-consumer' fully online retail systems.

In contrast, automakers almost completely rely on their traditional business models. In essence, their business model is mainly a Business-to-Business (B2B) wholesale model. They sell vehicles to their dealers or retailers who in turn sell them to the consumers and maintain relationships with them. There have been insignificant business model innovations in the last 100 years in terms of what they sell, where they sell and how they sell (Dinsdale et al., 2016).

The automotive ecosystem is facing an inevitable wave of multi-dimensional transformation. Major forces pushing this transformation are electrification, connectivity and digitalisation, changing consumer behaviour, and the entrance of new digital challengers (Dinsdale et al., 2016; Ferràs-Hernández et al., 2017; Hanelt et al., 2015; Llopis-Albert et al., 2021; McKinsey, 2018, 2019b; Morrissey et al., 2017; Sommer et al., 2021; Winkelhake, 2018). Among the major trends, the combination of digitalisation and rapid shifts in consumer buying behaviours is pushing automakers to transform their business models.

Consumers are demanding a seamless consumer experience across online and offline channels (Hanelt et al., 2015). Digital natives are slowly becoming the dominant buyers and are more informed and empowered consumers. Their consumer experience is heavily influenced by the likes of organisations that provide an omnichannel experience, such as Amazon, Zara and Starbucks. Combined with consumers' inclination towards 'usership' instead of ownership of a car, new entrants such as CarWow, Carnext, Sixt and Vehiculum are disrupting the traditional retail system with their offerings. They not only provide transparency in terms of price and services but also sell products and services directly to consumers.

Automakers have started realising it and have recently started (except for Tesla) to rethink their business models: how they sell (direct online, retail sales or hybrid); what they sell (subscriptions, add-ons, configurations); and where they sell (websites, retail network or 3rd party) (Dinsdale et al., 2016; Ferràs-Hernández et al., 2017; Llopis-Albert et al., 2021; McKinsey, 2018, 2019b; Morrissey et al., 2017; Sommer et al., 2021; Verhoef et al., 2017; Winkelhake, 2018). To provide a better consumer experience to the growing digital savvy consumers, automakers have to digitally transform themselves, innovate their business models and update their retail/distribution models (Dinsdale et al., 2016; Morrissey et al., 2017).

Digital transformation (not digitisation) is relatively new to the incumbent automakers (Hanelt et al., 2015; Sommer et al., 2021). The only choice is to transform themselves and leverage digitalisation to transform their business models. By contrast, two new entrants, Tesla and Rivian, capitalised on the benefits of digitalisation and entered with a radically different business model (direct-to-consumer sales). They were the most and 3rd most valuable automakers, respectively. Surprisingly, Rivian

has achieved this feat without having any revenue (CNN Business, 2021) (as of April 2022). This poses both a threat and an opportunity for the incumbents.

Notwithstanding, the incumbent automakers with a legacy retailers network cannot immediately switch to a completely different business model. They need to transform together with the retailers as this directly impacts them. For over a century, they have been the predominant medium of sales, the ones who maintained customer relations and loyalty for the automakers. Incumbent automakers have started taking steps towards this transformation. Automakers such as Volvo Cars and Mercedes have started piloting the direct-to-consumer sales model.

This transition to the direct-to-consumer sales model in the automotive industry is a contemporary phenomenon. Not even a handful of legacy automakers use the direct-to-consumer sales model currently for new car sales (as of April 2022). Mercedes, Toyota and Volvo have piloted direct-to-consumer sales. Therefore, there is no point of departure from similar peer-reviewed scientific studies on this transition/transformation, as there are none. Henceforth, the objective of this study is to investigate how digital transformation, at an incumbent car manufacturer, with the transitioning to a direct-to-consumer business model impacts its retailer network. For this purpose, a case study of Volvo Cars will be conducted, which will focus and delimits itself to the inclusion and inquiry among retailers of Volvo Cars in the English (UK) market specifically. The knowledge following from this study may give interesting illustration and support both to the automakers as well as their retailers in order to navigate the waves of transformation in the automotive industry.

Research Questions

The main research question of this thesis entails:

How does the transition to the direct-to-consumer business model impact the retailer network of an incumbent (car) manufacturer?

This question can be answered through the following sub-research questions:

1. What challenges do retailers face when their manufacturer switches to the direct-to-consumer business model? How are they responding to these challenges?

2. What dilemmas are the retailers facing upon responding to the changes in the retail strategy of their manufacturers? How are they responding to these dilemmas?

3. What opportunities and advantages have they identified with this new direct-to-consumer business model of their manufacturer? How are they capitalising on it?

4. What is the role of physical retailer sites in the direct-to-consumer business model and how is this role evolving?

Thesis Structure

The remainder of the thesis is divided into six chapters. The chapters follow the Linear analytical structure (Yin, 2014, p. 188). The second chapter presents the background required to interpret the results of this study. The chapter includes topics such as digital transformation, direct-to-consumer sales models and agency models in the automotive industry, and traditional sales models. In chapter three, the case company and the case are introduced. The following chapter (four) describes the methodology. The next chapter i.e. chapter five presents the results and discussion. The results are discussed predominantly focused on the retailers thereby answering the research question. This chapter also describes the implication of the study. The study ends with a concluding chapter which elucidates the concluding thoughts and directions for future research.

2

Theoretical Background

This chapter introduces relevant concepts and topics required to understand the findings of this study. This chapter begins by clarifying the terms digitisation, digitalisation and digital transformation. Thereafter, the D2C model, traditional retail model and agency model are explained.

2.1 Digitisation and Digitalisation

In order to understand Digital Transformation (DT), it is important to distinguish it from terms such as Digitisation and Digitalisation. Digitisation is "the technical process of converting analog signals into a digital form, and ultimately into binary digits" (Legner et al., 2017, p. 1). In essence, digitisation is making digital artefacts. For example, updating data into a computer or storing data into the excel sheets. The notion of digitisation has been conceived since the first computers were invented. As Legner et al., 2017 points out, digitisation has "dematerialised" information and "decoupled" information from its physical carrier and storage. As a result the the information can be processed, transmitted and stored as desired.

On the other hand, digitalisation is "the manifold socio-technical phenomena and processes of adopting and using these technologies in broader contexts" (Legner et al., 2017, p. 1). Moreover, digitalisation is about how these digital technologies are impacting people and organisations to accomplish tasks in a better way. Such as automating the redundant repetitive tasks, making more informed decisions using data analysis etc.

2.2 Digital Transformation

Now that digitisation and digitalisation have been clarified we depart towards discussing the term digital transformation. Digital transformation in the context of the organisation is all about people (Frankiewicz & Chamorro-Premuzic, 2020; Tabrizi et al., 2019). One can purchase all technologies however it is the people who need to use them and develop the mindset to adopt them (Frankiewicz & Chamorro-Premuzic, 2020; Kane, 2019). Table 2.1 shows some of the definitions of digital transformation.

Table 2.1: Some definitions of digital transformation

Source	**Definition**
Ismail et al., 2017, p. 6	*"as the process through which companies converge multiple new digital technologies, enhanced with ubiquitous connectivity, with the intention of reaching superior performance and sustained competitive advantage, by transforming multiple business dimensions, including the business model, the customer experience (comprising digitally enabled products and services) and operations (comprising processes and decision-making), and simultaneously impacting people (including skills talent and culture) and networks (including the entire value system)."*
Vial, 2021, p. 121	*"a process that aims to improve an entity by triggering significant changes to its properties through combinations of information, computing, communication, and connectivity technologies".*
Hess et al., 2016, p. 124	*"Digital transformation is concerned with the changes digital technologies can bring about in a company's business model, which result in changed products or organisational structures or the automation of processes."*
European Commission, 2021, p. 5	*"Digital transformation is characterized by a fusion of advanced technologies and the integration of physical and digital systems, the predominance of innovative business models and new processes, and the creation of smart products and services."*
Salesforce, 2022	*"Digital transformation is the process of using digital technologies to create new — or modify existing — business processes, culture, and customer experiences to meet changing business and market requirements. This reimagining of business in the digital age is digital transformation."*
Gartner, 2022	*"Digital transformation can refer to anything from IT modernization (for example, cloud computing), to digital optimization, to the invention of new digital business models."*

Various researchers (Frankiewicz & Chamorro-Premuzic, 2020; Ismail et al., 2017; Tabrizi et al., 2019; Vial, 2021) on digital transformation have emphasised that the digital transformation should be used in a broader context. It is about "organizational change", "cultural transformation", and "moving towards customer-centric approach" (Verina & Titko, 2019). These all point toward the human factor coupled with the business transformation using digital technologies. Changing human behaviour and mindset of people is a herculean task and this is what makes digital transformation difficult.

2.3 Traditional Retail Model of the manufacturers

Traditionally the manufacturers focus on manufacturing cars. Thereafter, cars are sold to retailers wholesale. The retailers in turn sell these cars to the consumers and take their margin out of that. From acquiring the consumers to aftermarket is handled by the retailers. They are essentially the face of the manufacturing brand on the ground.

Actually, to be more precise, this so-called traditional retail model has not been their first retail model. In the 19th and early 20th centuries, the manufacturers used the direct-to-consumer (D2C) sales (Buzzavo, 2013) in combination with the retailers/dealers and agents. They used "branches", which were wholly sites owned by the manufacturers for the direct sales. These branches are equivalent to today's direct online sales from manufacturers. However, later due to the changes in the industry the retailer distribution channel became dominant (Buzzavo, 2013). However, in the US, the government has put strict laws in place that protects the retailers/dealer (Crane, 2015). The manufacturers ought to sell cars through dealers. That is, the manufacturers can not bypass the retailers and sell directly to the consumers.

2.4 Direct-to-Consumer Business Model and Retailers as Agents

The phenomena of D2C retail in automotive is very new and relevant peer reviewed literature on this topic is nearly absent. Simple literature searched with the keywords "Direct-to-Consumer AND Automotive" yield only one relevant piece of literature. This further demonstrates that the phenomena of D2C is still not adopted by the mainstream traditional or established players in the market. Among the legacy car manufacturers, only Mercedes, Toyota and Volvo have tried the model (Automotive News Europe, 2022; ETAuto, 2021).

However, the phenomena of D2C are not new in other industries. There is a plethora of literature on D2C retail in other industries. There are numerous examples from our day-to-day life on D2C retail. These companies sell their product direct to consumers and also use retailers (own as well as a third party). Technology hardware such as Apple and Microsoft have been using D2C retail for some time. Apparel and footwear companies such as Zara, H&M, Nike, Adidas, among others, extensively use D2C in combination with their brick-and-mortar stores. Social media platforms such as Facebook and Instagram have enabled many SMEs to reach out directly to a wider consumer base. Using these platforms they can directly reach out to the end consumers.

Due to the nature of products in the automotive industry e.g. a car, it is not the same as buying a shoe or a T-shirt. Buying a car is one of the biggest investments made by people. In the context of automotive retail, retailers as an agent is a part of D2C retail strategy. The car, the manufacturer can not individually deliver millions of cars to individual consumers from the factories to rest of the world. Hence, the retailers are still relevant. However, as an agent acting on behalf of the manager. They help facilitate sales by taking responsibility for the activities requiring physical interaction with the consumers (ETAuto, 2021). These activities include test drive, delivery of the cars, product demonstration and other transactions. Furthermore, In an agency model, the manufacturer owns the car stocks instead of the dealers (Young, 2022). For further illustration, table 2.2 shows the differences between the Traditional and D2C model.

Table 2.2: Traditional vs Agency Model (Young, 2022)

Under a Traditional Model	**Under a D2C Retailers as an Agent Model**
The retail price of the vehicle is set by the dealer, so haggling is possible	The retail price of the vehicle is set by the manufacturer, so there is no haggling
Sale contract is between dealer and customer	Sale contract is between the brand and buyer
Stock is owned by the dealer	Stock is owned by the manufacturer
Dealers can pre-register cars to hit a target	Dealers can't pre-register cars
Dealers can discount cars by 'giving away' some of their margin	Dealers cannot discount models by 'giving away' the manufacturer's margin

D2C is considered the way ahead by the manufacturers as it helps them to be directly in touch with the consumers using digital channels (Kim et al., 2022). This helps them save costs and even capture the margin as the profits that would have gone to the retailers otherwise (Kim et al., 2022; McKinsey, 2019a). The omnichannel strat-

egy is also used within the context of D2C retail (Gao & Su, 2017). Verhoef (2015) states "omnichannel management as the synergetic management of the numerous available channels and customer touchpoints, in such a way that the customer experience across channels and the performance over channels are optimized" (Verhoef et al., 2015, p. 176). The manufacturers also focused on providing a seamless consumer experience through digital channels. This move is also triggered by consumer behaviour who prefer omnichannel experience (Bell et al., 2014). Various touchpoints within the consumer journey are getting more digitalised and the consumers expect a seamless online and offline experience (Bell et al., 2014; Verhoef et al., 2021; Verhoef et al., 2015). Services such as product information and selection, test drive booking and booking services have increasingly become digital and are at consumers' disposal 24/7.

2.5 Overview and Operationalization

Towards operationalizing and summarising the theory presented in this thesis the following conceptual model has been drafted (2.1). In light of this study's delimitation, the individual components are not elaborated in this section as it offers the mere purpose of depicting the broader context of this study and how digital transformation relates to the scope and objective of this study to investigate its impact on the retailers. In a nutshell, it essentially depicts that there are various components at play that in turn may impact the retailers and these are influenced and vary by time and communication.

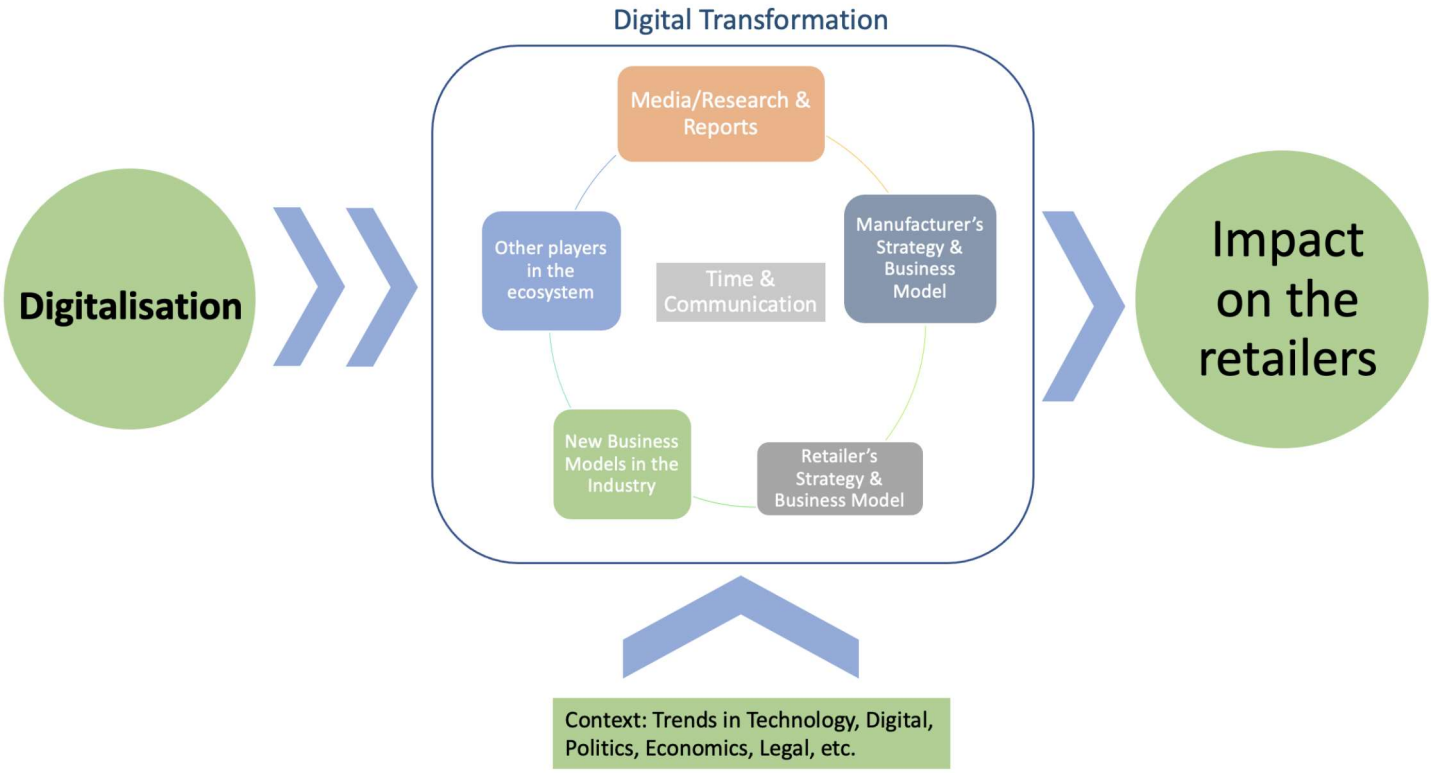

Figure 2.1: Conceptual Model

3

The Case: Impact of D2C transition at Volvo Cars on its Retailers

In order to answer the main research question using a case study design, three things needs to be clarified: (i) the phenomenon, (ii) the context and (iii) the unit of analysis (Yin, 2014). In this chapter, first I will provide a short introduction and then describe the case i.e. Volvo Cars and the phenomenon,i.e.the digital and commercial transformation at Volvo Cars. The unit of analysis is the retailers of Volvo Cars in the UK.

Transitioning to the direct-to-consumer business model is difficult and has challenges for both retailers and manufacturers. Hence, the case in focus here is the impact on the retailers upon Volvo Cars' decision to transition to the D2C business model from a traditional wholesale model. This is a case of the **impact of digitalisation on the legacy manufacturer and transformations triggered as a result of the digitalisation**.

3.1 Case Company: Volvo Cars

Volvo was founded in 1927 in Gothenburg (Sweden). The headquarters are still in Gothenburg and the production sites are in Belgium, China, Slovenia, Sweden, and the US. After the spin-off from the parent company, Volvo Cars was bought by Ford. Under Ford, Volvo Cars performed extremely bad financially and henceforth Ford decided to sell it (Reuters, 2010; Wang, 2011). In 2010, Geely Holding bought it from Ford and

still owns a majority of its shares after the company went public in 2021.

Volvo Cars employ more than 40000 employees globally. Currently, Volvo Cars is one of the fastest-growing premium car brands. It has a presence in more than 100 markets. According to the latest annual report of Volvo cars (Volvo Cars, 2021), the company has formulated mid-decade ambitions and the fastest transformer strategy. Volvo Cars aims to sell 1.2 million cars, have 8-10% EBIT margin, 50% sell fully electric sales, and have 50% in-house software and 50% online sales, among others (Volvo Cars, 2021).

3.2 Digital and Commercial Transformation at Volvo Cars

Volvo Cars went public last year on Nasdaq Stockholm. There were various promises, however, three of them stand out in the context of this study: (i) to be the fastest transformer in the industry; (ii) to sell 50% of cars online by 2025; (iii) direct relationships with the consumers (Volvo Cars, 2022). In the context of the industrial landscape, this is an ambitious agenda. And in order to deliver on these above-mentioned promises, Volvo cars are going through a tremendous commercial transformation. The company structure is changed (bringing together development, business and UX) and a new business model (Direct-to-Consumer) is under implementation.

All these are only possible through a digital transformation because digital is the core of the new business model. Digitalisation has enabled Volvo Cars to establish a direct relationship with consumers. However, this will have a direct impact on their retailer partners. As they have been selling cars and maintaining relations with the consumers. With the new direct-to-consumer (D2C) business model in many ways, Volvo cars are bypassing retailers. On the other hand, they justify that, going direct to the consumers will "(...)creates price transparency and quality, fostering trust with customers, while providing us and our retailers with more predictable, recurring revenues" (Volvo Cars, 2021, p. 31). Hence emphasising that retailers will still be their crucial partners in the new business model.

3.3 D2C Business Model at Volvo Cars

Volvo cars aim to sell 50% of their cars direct online to their consumers by 2025 (Volvo Cars, 2021). Table 3.1 depicts the salient features of the D2C business model and its differentiation with the traditional business model.

Table 3.1: Salient features of D2C Business Model at Volvo Cars (Volvo Cars, 2021)

Domain	**Current Status (Traditional Model)**	**Heading Towards (D2C Model)**
Business Logic	Wholesale of cars and parts	Optimising for customer lifetime profitability
Customers	Retail partners	Direct customer relations
Marketing	3rd party channels, 3rd party customer data	(i) Volvo Cars controlled channels added; (ii) Volvo Cars owned data
Sales and Distribution	Retail partners – sales margin	(i) In-house sales; (ii) Retail partners – sales commission
Residual Value	Financial institutions / leasing companies	Actively managed in-house (incl. used car business)
Value Chain Focus	New car sales	(i) New/used cars and services; (ii) Control value chain across vehicle life; (iii) In-house operations where relevant

4

Research Design

4.1 Research Approach and Design

A qualitative research approach was considered the most appropriate approach for this study since the idea is to collect perspectives, underlying assumptions, and opinions to understand the issue at hand (Gray, 2014). That is, in this study, from the perspective of the retailer's point of view. In part, this also informed the decision to conduct a case study. Such a design is suitable for studying contemporary phenomena in its own real-world context, which allows for cases where "the boundaries between phenomenon and context may not be [as] clearly evident" (Yin, 2014, p. 14).

The previous chapter, chapter 3, has offered an introduction and background to the case that is being studied, and the same has been informed and laid out by the theoretical background in chapter 2. In light of the focus of this current chapter, the methodology, it is deemed suitable to further elaborate on what focus or delimitation this study has been subjected to. As briefly mentioned in the introduction, the case focuses on retailers in the United Kingdom (UK). There are two reasons that pertain to this decision. One is to ensure the case study covers one specific context (i.e. 'purposive'), and the second rationale involves that of convenience in the sampling strategy.

The following sections will further elaborate on how the quality of this study is maintained, as well as the data collection, analysis, and ethical considerations.

4.2 Data Collection

The data collection can be divided into two distinguished modes of data collection and information. That is, primary data collection and secondary data collection. In brief,

the primary data collection focuses on collecting the perspectives, among other things, from the respondents approached in this study whereas the secondary data collection is predominantly useful for collection of information on context and triangulation purposes.

4.2.1 Primary Data

The main source of primary data collection is the semi-structured interviews with retailers (in the UK). Respondents were recruited through a combination of purposive and convenience sampling (Gray, 2014; Patton, 1990). The retailers were approached with the help of the network director of the UK market at Volvo Cars. The retailer respondents were either the top managers (CEO/COO/MD) at the retailer sites or the owners. The sample consisted of around 20% of the Volvo Cars' retailer population in the UK i.e. nine respondents. The interviews were conducted through MS Teams and on an average of 45 minutes long.

Before interviewing the retailers, a prestudy was conducted with the personnel at Volvo Cars. The respondents (8 respondents) from Volvo cars were recruited through convenience sampling and purposive sampling. The respondents at Volvo Cars only consisted of people directly involved in the transition to the D2C business model. The inputs from the respondents at Volvo Cars were used to design the questionnaire, and understand the industry dynamics and the business models. Also due to the confidential nature of the insights provided the inputs from them are not used in the results. Hence, the primary data consists of the interviews with the retailers and the result section only limited the insight from them.

4.2.2 Secondary data

The main source of the secondary data is the public documents available through the case company's news release, consultancy reports, news reports/articles, industry reports and academic literature. Academic literature was obtained through Gothenburg University's digital library, SCOPUS search and Google Scholar. Whereas other secondary data were collected using Google search. For the SCOPUS search the keywords/combination of following keywords were utilised: "digital transformation", "direct-to-consumer", "agency model","automotive transformation", "automotive dealership". Interestingly, there was only one peer-reviewed study on the direct-to-consumer model in the automotive industry. However, there were several consultancy reports on the subject.

4.3 Analysis

The primary data were analysed using the Grounded Theory as proposed by Kathy Charmaz. According to Charmaz, "grounded theory methods consists of systematic, yet flexible guideline for collecting and analyzing qualitative data to construct theories from the data themselves" (Charmaz, 2014, p.1). This is in line with the objective of this study, which is to understand the impact on the retailers when their (incumbent) manufacturer decides to transition to a direct-to-consumer business model.

The data were sorted through the activity of coding. In the words of Charmaz:

> "coding means that we attach labels to 'segments of data' that depict what each segment is about. Through coding, we raise analytic questions about our data [...]. Coding distills data, sorts them, and gives us an analytic handle for making comparisons with other segments of data" (Charmaz, 2014, p. 4).

Moreover, coding does not only offer a tool for analysis but also facilitates our ability for interpretation. Furthermore, the coding process can be characterised by a process of meticulously collecting codes for a so-called codebook, which later follows with coding on a more aggregate level. Specifically, in this study the initial five interviews were coded sentence by sentence. Following that, very few new codes emerged. Therefore, the rest of the interviews were coded at the paragraph level.

The coding was conducted using ATLAS.ti software (Version - 22.1.0 (build 3475)). This software supports the process of categorising data with labels (coding). Additionally, it helps to group and conceptualise similar data segments (Friese, 2019).

4.4 Ensuring Quality

The most crucial limitation of the chosen research approach and design is its low external validity, which does not allow transferability of the study results. Nevertheless, the illustration and insights that follow from this study does bring to attention a unique and understudied phenomena that is currently taking place in the car industry. Notably, from such information further research could be initiated and conducted. This corresponds with Yin's perspective on case study's strength and objective to attaining analytical generalisability instead of (statistical) generalisability (Yin, 2014). Furthermore, in order to ensure this study's internal validity and reliability, findings from the

interviews were triangulated with information that emerged from secondary data collection and preliminary results were documented and shared with some respondents from the car manufacturer.

4.5 Ethical Considerations

The study followed the principles of informed consent. In essence, each participant was informed about the research purpose prior to the interview. In addition, they were also informed about how their data will be used and stored. The participation was voluntary and the respondents had an opportunity to terminate the interview at any time they wished or refuse to answer a question. All the participants are kept anonymous throughout the data analysis and presentation of the results.

5

Results and Discussion

In this chapter, the study findings present and illustrate how the retailers are responding and or managing the ongoing change process. This chapter consists of four sections, in correspondence with the sub-research questions posed in this study, that will each present and discuss the findings in light of the relevant literature and theoretical concepts operationalized in this study. The first section describes challenges faced by the UK Volvo cars retailers (hereafter referred to as "retailers") when Volvo cars (hereafter referred as "manufacturer") switches to the direct-to-consumer (D2C) business model. The second section presents the major dilemmas these retailers are facing upon responding to the changes in the retail strategy of their manufacturer. The third section elaborates on the opportunities and advantages that the retailers have identified with this new D2C business model of their manufacturer. Finally, section four depicts the role of physical retailer sites in the D2C business models and their evolving role.

5.1 Direct impact on retailers during the transition when their manufacturer switches to the direct-to-consumer business model

The move of the car manufacturers, hereafter mentioned in text as 'manufacturer', to the direct-to-consumer (D2C) retail strategy is a big topic of discussion in the car industry. The unanimous impression among the retailers is that it could potentially be *the biggest shift* the automotive industry has seen in the sector for many years, or even decades. They expressed that they face various challenges, which can be summarised or categorised into four aspects, as presented here below.

Retailers feel they lose their entrepreneurial ability

Retailers are entrepreneurs and are independent business owners. They find it difficult to understand how the D2C model will enable them to continue being entrepreneurial. On the contrary, they believe that they might lose their entrepreneurial ability. In the D2C business model they cannot sell cars themselves, rather they would as an agent on behalf of the manufacturer.

Furthermore, the timing of D2C retail strategy of the manufacturers makes it even more difficult for the retailers. Since the pandemic - due to various supply chain issues - there has been a limited supply of new vehicles. Hence they jointly raise: "we have more buyers than the cars". However, as a result, they have been enjoying a high level of profitability since past years.

They question, why there is this apparent need to change the current model? They believe that there are still learnings to undertake concerning the customer journey and the online direct approach may not be the answer. This finding is coupled with how retailers as the current franchise holder can work in an entrepreneurial way.

Optimum level of communication is the key to smoother transition

In general retailers appreciate the manufacturer for being supportive and listening to their concerns. However, in the context of the transition to the D2C business model, this study found mixed reactions to the manufacturer's communication, attitude to concerns, and being supportive (in specific instances).

From the manufacturer's point of view, the belief is held that they have been loud and clear about their ambitions and new business model. However, this feeling does not seem to be shared by their retailer network. The interviews demonstrated that different retailers hold different levels of information on the manufacturer's new business model and retail strategy. They are uncertain about what the manufacturer is trying to do. They find it hard to see any advantage of the new business model in this context. Hence they are not convinced that the D2C route is the way forward as of yet.

Several retailers have been questioning transparency. Retailers emphasise that the changes by the manufacturer must be done in an environment of trust. Several of them feel that they have not been consulted by the manufacturer. They

want to know clearly why and what's expected of the retailers in the transition. Furthermore, they complain that the manufacturer claims success with D2C, but at the same time they have made some models unavailable for the retailer network to sell. The lack of answers to these questions coupled with the lack of visible advantages of the D2C business model has further fuelled their scepticism about the manufacturers' D2C business model.

At the same time, they appreciate discussing such changes and feel the comfort that the team at Volvo Cars understands that they don't have all the answers and that a close, open trusted relationship is imperative to navigating their way through the stages of the D2C transition.

Whilst, from the manufacturer's point of view, the transition period is very dynamic. Sharing every bit of information can not only be overwhelming for the receiving party, but may also create confusion. Furthermore, not everything could be shared with retailers. Some information is proprietary and confidential. At the same time, the phenomenon of transition to the D2C business model is new for almost all the manufacturers (with some exceptions) as they are also learning along the way.

Financial concerns among the retailers

Currently, the retailers operate with the traditional margin model. They buy cars wholesale from the manufacturers and then sell them to the end consumers with a margin. However, with the D2C the retailers will not have car stock for sale and consequently; no opportunity to earn on the sales margins. The cars will be directly sold to the end consumers and transactions will be directly done with the manufacturer. The retailers will act as 'agents' on behalf of the manufacturer and facilitate the sales process. For this facilitation, the retailers will be compensated with 'handling fees'.

This has created a fear of losing control, revenue, and profitability among the interviewed retailers. The retailers believe that if the Agency model is practised in its pure form, they will not have the ability to influence the buyers to buy a car. They can only facilitate the sales process of the car that is already sold by the manufacturer directly online to the consumers. As a result, they are not in control of what used to be their daily job: selling cars to consumers.

When it comes to revenue, the major revenue streams for the retailers are

margin on sales of the cars (new and used), sales of accessories, servicing, financing the cars, and providing insurance. With the D2C business model, they will completely lose opportunities on the revenue streams of margin (negotiated) on sales of cars, financing the cars, and providing insurance. This is a huge proportion of their total revenue and they are resisting of giving it away. This will have a direct negative impact on their profitability. As per the Respondent 9, the current margin on each car is significantly higher than handling fees in the Agency model.

Furthermore, running larger retail sites with only handling fees will be challenging for the retailers. In order to provide a better and consistent brand experience to consumers, retailers are subjected, by the manufacturer, to invest in their sites to upgrade them. As stated by the Respondent 9, "they want a shiny statement, fantastic levels of consumer experience etc". Several retailers also point out that retailers having only Volvo's dealership might be particularly vulnerable as they do not have diversified risk. If invested heavily, because the manufacturer demanded it, this cost cannot be quickly recovered and may take years. This makes retailers concerned about the returns on investment with only handling fees.

All the respondents unanimously acknowledge that with more and more electric cars sold, which inherently require less servicing than IC engine cars, the retailers are even more under the pressure of losing revenue stream. This is already motivating them to think about other sources of income.

Lastly, there has been mixed reactions on what kind of retailers will be most impacted. Some believe that smaller retailers will be more negatively impacted by the new business model whereas others believe that the size of the retailer's business/site will not matter.

Negative portrayal of the retailers in the media

Several respondents raised concerns about the negative portrayal of the retailers in the media. Elucidating further, Respondent 7 states that press and or news are questioning the need for the existence of the retailers. At the same time, consultancy firms write reports on the D2C business model with an agenda targeted toward the manufacturers.

5.2 Second order impact on the retailers

Loss of accumulated expertise in the dealership

Manufacturers view advantages in the D2C business model and hence are pursuing it. However, in the process of implementing the new business model, some second-order impacts emerge. In a long run, the accumulated expertise over the years in the dealership will disappear because of the agency model. One might question if that is even required. Only time will tell how consumers respond and what will be the (actual) future of the automotive retail strategy.

Retailers might be at the mercy of the manufacturer's changing plans

At the same time, the retailers might have to be at the mercy of the manufacturer's changing plans. Manufacturers have far greater control over retailers in the D2C with the agency model. Since the retailers are independent entrepreneurs they might not be willing to get restricted by the agency model setup with the manufacturers. As a result, they might lose interest in the brand and start moving and or focusing on other brands.

Loyal consumers might be lost to other brands

All these trickle down to the consumer experience. Respondent 6 puts it as follows: "what I am invested in (...) is the customer. I understand the customer, every day I deal with customers; not electronically, physically." Several retailers feel that the manufacturer does not understand the consumers' needs and wants. As a result, loyal consumers might be lost to other brands.

Used cars might also be sold D2C

Another avenue where retailers feel they will be impacted is in the space of used cars. Although this study implicitly focused on new car sales, it is important to raise the second-order issue that might arise in future. Several respondent raised the concern that their ability to buy used cars might be restricted going ahead. Retailers receive used cars from hire companies. Instead of going to retailers, these used cars from hire companies might be directly sold to the consumers.

Retailer's banks are concerned

Another issue was pointed out by Respondent 6 and involves the concern from the retailer's bank. The retailer's bank is concerned about financing the upgrading of the retailer site because they feel retailers are bypassed in the D2C business model. Furthermore, with the D2C business model, retailers will not have car stocks as assets to show to the banks. As a result, the banks might be hesitant to take the risk of financing the retailers.

5.3 Opportunities identified by the retailers with the new business model

With the changing automotive ecosystem the retailers have found out opportunities where they believe they could earn money.

Opportunities in smart repairs, one-stop-shop and charging stations
Cars are getting electric with a different type of technical configuration than IC engine cars. They are getting more software, electric and electronically advanced. This requires specialised smart repairs for cars. Retailers view a smart repair as an opportunity to earn a significant profit. However, such a facility will require substantial investments from the retailers.

Furthermore, they do not want to lose the opportunity in other servicing avenues. They want to continue being a 'one-stop-shop' for servicing and accessories. They also see opportunities in tires and windscreen repairs. Likewise, setting up charging stations is considered an important revenue stream in the near future.

5.4 Evolving role of the physical retailer sites.

The role of the retailers are changing. All are aware of this. For instance, as respondent 9 illustrates it:

> *"Because I'm not responsible for pricing anymore, I'm not responsible for much of the marketing anymore. So, what am I responsible for? I should be target driven. My focus should be around enquiry management, and I guess customer experience CX."* - Respondent 9

The findings of this study clearly indicate that the retail sites will be all about consumer experience and enquiry management. Instead of 'sales agents', the retailers might have 'product specialists' to help consumers buy the right car for themselves. The retail sites will be used for test drives, product demos, car delivery, sale of accessories and servicing.

5.5 Major dilemmas the during the transition of the business model

Under-communicate versus over-communicate during the transition

On the one hand, the retailers complain that sufficient communication and clarity are not conveyed by the manufacturer. Whereas on the other hand, due to the fast-changing dynamics of the situation, the manufacturers are careful in communication. Some information gets irrelevant fast and some information could be confidential. However, during a change process, it is recommended to communicate appropriately and at times over-communicate to make the points clear (Gans, 2011; Klein, 1996).

Protecting the old ways of doing business versus embracing the opportunity of new ways

There is a clear resistance among the retailers to readily embrace the direct-to-consumer sales from the manufacturers. The reason being that they are enjoying a decent level of profitability at this point in time. At the same time, up to an extent, they will lose their entrepreneurial abilities. This makes them stick to their status quo. On the other hand, the manufacturer reasons that if the business model is not changed, neither retailers nor the manufacturer will thrive. Indicating that, going D2C is the only way out and retailers have to embrace it. However, most retailers seem unconvinced with this reasoning.

Hi-Tech versus Hi-Touch

On the one hand, the manufacturer is pushing toward the online experience and on the other hand, the retailers believe that in-store physical experience can never be substituted. Volvo cars aim to sell 50% of its cars direct online to consumers. However, there is a very tiny percentage of the population that prefers to transact

100% online.

Standardised experience versus local tastes, particular markets

With direct online sales, the sales experience will be standardised across the world. On the other hand, the retailers are experts in their local region. This means they might have to adapt to the standards set by the manufacturers. Being standardised provides consistency and efficiency but providing a customised local experience may result in a better consumer experience.

Reactive versus creative/proactive

This is the first time retailers in the UK are experiencing a change that fundamentally impacts their business model. Hence, there is a reluctance to be the first mover. Some retailers suggest waiting and watching what happens with the other brands if they take a similar route. On the other hand, the manufacturer has promised their shareholders that they will be the fastest transformer and will pioneer the D2C model. There are pros and cons for both being a first mover or being reactive and learning from other brands' mistakes.

6

Conclusion

Digitalisation has changed the way business is conducted. It has brought immense opportunities. However, the traditional players in a traditional industry face challenges. In the current automotive industry landscape, it has become apparent now that it has come to the survival of the players now. It is either change or die. Change is difficult and comes with challenges and resistance. The more difficult it is when the status quo is profitable and prospering; not many can envision beyond the short-term profitability.

This study investigated the digital transformation and transition to the direct-to-consumer (D2C) business model in the automotive industry. Specifically, it was able to answer the research question of this thesis, which involved: *how does the transition to the direct-to-consumer business model impact the retailer network of an incumbent (car) manufacturer?* The main findings of this study can be summarised and concluded as follows.

The change process, as initiated by the car manufacturer, has impacted the retailers in great length and breadth. They unanimously perceive that the transition to a D2C business model results in a loss of entrepreneurial ability, and apprehension, which is in part influenced by the level and detail of communication from the manufacturer about the navigation and expectations of the transformation process. There are financial concerns. Notably, large investments would be required for retailers to facilitate their new roles as agents in the chain of sales whereas the bank is aware of the potential risks and concerns as raised by several media outlets and news. In particular, retailers' profit will change from margins on car sales, among other services, towards the collection of handling fees which

are believed to be significantly lower than their margin profits. The vulnerability can be found further pronounced in how they envision their role being impacted in the sales of cars. That is, the disappearance of expertise from the dealership, potentially the loss of selling occasions, loyal customers opting for other car brands, as well as being confined as an entrepreneur in a more narrowly defined framework as dictated by the manufacturer. With regard to potential opportunities, the retailers envision a change in the expertise of car servicing towards smart repairs and setting up (electric) charging stations. Lastly, some major dilemmas characterise the transformation process, as perceived by or at the level of the retailers: (I) under-communication versus over-communication, (II) protection of the 'old ways of doing business' versus embracing the opportunity of the new ways, (III) standardised experience versus local tastes and particular markets, (IV) Hi-Tech versus Hi-Touch, and (V) reactive versus creative and proactive. Furthermore, retailers envision their sites to be experience centres for consumers.

The phenomena of D2C retail in the automotive sector is novel and currently understudied. Among the legacy car manufacturers, three car manufacturer brands, among Volvo cars, can be found pivoting the model. It shifts the ownership of car stocks from the retailers back to the manufacturer and the retailers will be assigned the role of agent, responsible for activities such as test drives, and the delivery of cars, among other things. Retailers would also handle inquiry management through omnichannel.

Future research could focus on expanding the current case study to the inclusion of other car manufacturers who are undergoing similar transformations. In turn, this also emphasises the limitation of this study, which is its inability to generalise across the entire car industry. However, the objective and scope of this specific study were subjected to the constraints and decision to focus on one single case and context. Nevertheless, it can be deemed likely that several results could potentially be found in other cases and across contexts. This in turn could further inform and aid theory building.

In conclusion, a car manufacturer's digital transformation and transformation to the direct-to-consumer business model can, in spite of its perceived benefit by the manufacturer, pose numerous challenges and dilemmas for its retailer network. The retailer is subjected to transform from entrepreneur to agent on behalf of the car manufacturer. The collaboration between the retailers and the manufacturer in an environment of trust is the only way such transition can smoothly happen.

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