Distribution strategies for volume and premium brands in highly competitive consumer markets

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Abstract

This article deals with distribution strategies for volume and premium brands in the automobile industry. Like some other consumer markets, the car market has become subject to substantial overcapacity in the last decade and subject to a pressure to keep costs low, while at the same time manufacturers emphasize immaterial values and attempt to strengthen the brand to get an advantage over competitors.

A number of theoretical themes are related to extensive case studies carried out in Sweden, the UK, Germany, Spain and Australia. One hundred and nine interviews were carried out with manufacturers, importers, dealers and industry experts. Theories used in the study emerge from two research traditions. First, perspectives on corporate identity and brand management are applied to distribution channels. Second, theories on channel structure, i.e. the choice of selling through one channel or dual-multi-distribution; solus- and multi-franchising; and channel ownership, i.e. direct and indirect channels are applied. Theories are woven together in a concluding analysis of distribution strategies for volume and premium brands.

Some conclusions on the brand’s influence on distribution strategies emerge in the study. The findings suggest that while distribution activities may be shared among channel members in a channel selling volume brands, there is a great need for coordination in channels selling premium brands to secure premium values that reflect the brand’s raison d’être and justify its price premium. Anchorage in the local market is crucial for motivating the volume brand dealer, and also critical for volume dealers to stay viable and competitive. Identification with the local dealer appears to be crucial in designing distribution strategies for volume brands. A premium brand is less related to the local market: Rather, its competitive advantage is based on strong brand identification and the consumer is likely to be attracted by the image of the premium brand than by the local dealer. Creating a consistent brand experience is thus decisive for premium brands whose content to a great extent is global and goes beyond the influence of local dealers and cultures. Moreover, an understanding of the brand is suggested to be indispensable in analysing push–pull mechanisms. While pull systems are associated with higher channel efficiency, the study suggests that pull systems are unlikely to work for volume brands: high manufacturing overcapacity is beyond the influence of individual manufacturers, thus industry overcapacity forces volume brand manufacturers to push cars to the market. Premium brands, with demand in reasonable balance with supply, may restrict the use of push systems without losing sales volume.

Keywords: Car distribution; Premium brand; Volume brand; Automobile industry; Industry overcapacity; Distribution strategies; Multi-franchising; Channel ownership; Dual distribution

1. Introduction

This article deals with distribution strategies for premium and volume brands in the automobile industry. Although few studies take a strategic view on distribution, this field is likely to be crucial for manufacturers in attempts to create and develop competitive advantages. With a substantial part of manufacturing activities being outsourced (Allen et al., 2005; Collins et al., 1997; Harrison, 2004; Van Acker, 2006), the value-chain emphasis is undergoing important changes. Marketing, market communication, distribution and after-market services (Moore, 2006) are likely to be increasingly important since these fields of the value-chain involve customer interaction. Schneider (2001) argues that car

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manufacturers increasingly will have to concentrate on distribution, marketing and integration while manufacturing and R&D will increasingly be outsourced to suppliers.

In the last decades, the interest in brands has increased among researchers and practitioners, reflecting an increased market maturity and a high focus in society overall on immaterial values (Herrmann and Huber, 1997; Johnson et al., 2006). Alvesson (1990) describes this tendency as a development 'from substance to image', and marketing theorists describe the development in similar terms (Aaker, 1991; Aaker et al., 2004; Kapferer, 2004). Although there are numerous studies on brands, including budget brands, e.g. RyanAir (Davies, 2001) and exclusive brands, e.g. Gucci (Moore and Birtwistle, 2005) and Mercedes (Strach and Everett, 2006), few studies take a closer look at the exclusivity dimension in a distribution context. A few studies compare brands in a distribution context. Allsopp (2005) compares premium and volume brands in different consumer industries from a consumer perception point of view. Clark et al. (2007) investigate status consumption and 'role-relaxed consumption' from a consumer behaviour point of view by relating to the impact of social influence and market influence on purchase decisions. Some studies have been undertaken from a distribution perspective on premium brands: Donna Karan, Gucci, Tommy Hilfiger, Kenzo, Max Mara (Moore et al., 2000), Burberry (Moore and Birtwistle, 2004), Gucci (Moore and Birtwistle, 2005) and volume brands: Benetton (Barela, 2003); Buick (Chen, 2005); Hennes & Mauritz (Helfferich and Hinfelaar, 1999); IKEA (Howell, 2006; Jonsson and Elg, 2006; Laulajainen, 1991). A few studies focus on the concept premium and what it means in terms of consumer willingness to pay a higher price, but without taking any closer look into the role of the brand (Allsopp, 2005; DelVecchio and Smith, 2005; Wileman and Jary, 1997). No studies appear to focus on the differences between premium and volume brands in developing distribution strategies.

For the purpose of taking a closer look into distribution strategies for premium and volume brands, the automobile industry was chosen. The automobile industry can be assumed to be different from the fashion industry, where premium brand studies on distribution have been undertaken (Moore et al., 2000; Moore and Birtwistle, 2004). The car is a crucial element of the everyday life of many people (Bernanke, 1984; Hallström, 1998; Levedahl, 1980) and constitutes the major part of household expenditure on transport, which accounts for 13–18% of household expenditures in, e.g. the 25 EU countries (Eurostat, 2006), Sweden (Statistics Sweden, 2005) and Japan (Statistics Bureau, 2005). To many people, the car is a very emotional item (Merritt, 1998; Sandqvist, 1997) and the increased interest in creating premium brands in the last decades suggests that not only consumers, but also car manufacturers, have a strong interest in reaching a premium brand image (see, e.g. Cerezo, 2002; Cooney, 2005; Kirmani et al., 1999; Parment 2006a, b; Silverstein and Fiske, 2003). Leading car magazines deal with different aspects of car manufacturers' ambitions to go upmarket and create premium brands (auto motor und sport, various editions, 2004–2007). At the same time, car manufacturers need to maintain sales numbers to cover high costs for product development, manufacturing and marketing. Manufacturers overestimate demand for their products considerably, which is reflected in sales forecasts being substantially higher than actual sales figures (EMCC).

This article assumes the manufacturer's role as 'channel captain', someone who leads the channel, thus exerting great influence upon channel members. In numerous industries, the manufacturer is portrayed as the channel captain (cf. Dobson and Waterson, 1996, 1997; Parment, 2006a), and studies indicate that in the automobile industry, the retailer's brand has difficulties in challenging the manufacturer's brands (Parment, 2005; Rafer, 1997; Whiteman et al., 2000). Manufacturers seem to be in a position to decide on their distribution organization to a high extent, cf. Womack et al. (1990), who argue that car manufacturers have organized their distribution system to satisfy the needs of the manufacturer rather than of the customers.

Based on a case study from the automobile industry, this article will analyse how manufacturers of premium brands and volume brands are developing and applying distribution strategies.

2. Methodology

The main empirical data source is an interview study on the automotive industry, which started in 1999 and finished in 2006. One hundred and nine interviews were carried out with 104 individuals, 5 of which were interviewed both in 1999 and 2002; 34 interviews were carried out in 1999, 3 in 2000, 15 in 2001, 53 in 2002, and 4 in 2006. The average duration of the semi-structured interviews was 1 h and 25 min. Table 1 shows the distribution of the interviews.

The research project embraces an explorative phase, and a second prolonged analytical phase. While the first phase generated preliminary findings, the second phase substantiated the findings through finding nuances in the empirical data, thus mirroring a grounded theory approach (cf. Glaser and Strauss, 1967). New ideas and approaches influenced the process in discussions with interviewees rather than, in a survey-like manner, asking pre-determined questions and summarizing the answers. Some clear patterns emerged representing objectified realities across a group of actors, providing the basis for the categorizations and patterns underlying the findings. The methodology is qualitative in

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1For instance, Moore and Birtwistle emphasize a main problem in the distribution of premium fashion brands: the products go through a multiplicity of distribution channels to reach the marketplace, which creates a risk for the growth of a ‘grey market’ for the products. This is not an issue for premium car manufacturers.
terms of the approach, thus generating input to the process of defining critical issues in designing distribution strategies rather than testing hypotheses. However, the huge number of interviews also made it feasible to identify clear patterns in the empirical material.

Preliminary findings were discussed with academics and practitioners in 22 seminars, 19 of which took place in the automobile industry, to secure the consistency and reliability of the findings. Some of the insights from the study may be applicable to other consumer industries as well, but further research is necessary to estimate the generalizability of the findings.

3. Theoretical assumptions

3.1. Branding and efficiency focus in distribution theories

Distribution decisions are subject to the challenge of dealing with a concurrent pressure to promote distribution efficiency and at the same time ensuring that the corporate identity is communicated properly. Some authors have dealt with this issue, e.g. Wileman and Jary (1997), who propose a creative balance between branding and cost focus as a solution to the dominance of the trading philosophy: “The trading philosophy focuses on the short-term maximisation of sales and profits. The brand management philosophy focuses on building long-term customer loyalty and customer preference, and thereby on the long-term maximisation of brand and business value. The two philosophies need to be in balance—or in a state of constant creative tension.” (p. 1) Numerous studies suggest that buying decision are to a great and increasing extent determined by emotional values (Merritt, 1998; Parment, 2005, 2006a,b; Sandqvist, 1997). Silverstein and Fiske (2003) refer to customers’ increased emotional awareness, by referring to cars as a typically emotional item, which is manifested as an interest in self-fulfilment, self-acceptance and self-esteem.

As a contrast, early distribution theorists focused on minimizing costs as the primary goal of the distribution chain, but they did not take marketing and branding issues into account (see, e.g. Bucklin, 1966; Hewitt, 1956; Mallen, 1967). These early theories appear to assume that there is always a market for the products, hence minimizing distribution costs was seen as the overriding goal in developing distribution channels. In early conceptualizations, actors were assumed to strive for finding an efficient way of distributing goods from manufacturers to consumers through a number of intermediate transactions, with little or no integration between actors’ activities. At least with hindsight, these theories appear to be framed on the assumption that markets are characterized by a shortage of goods, thus marketing and branding were not seen as necessary functions of distribution channels. For instance, Alderson (1957) and Bowersox et al. (1961) lack a strategic approach to distribution. Despite the denotation used by these early theorists—marketing channels—marketing and branding activities were not separated from the selling function, and selling was seen as a cost subject to optimization.

In the strive for reducing distribution costs, stockholding of cars at different stages in the distribution chain has been questioned as it is assumed to entail significant costs. A complete conversion of automobile production from a push to a pull system has been estimated to yield savings of up to 20% in the cost of providing cars to the market (Ciferri, 2002; Dettmer, 1998). Buzzavos and Volpato (2001) argue that concurrent market, industry and regulatory forces exert pressure on the car distribution system towards a leaner approach in order to complete the transformation cycle which started with lean production.

3.2. Corporate identity and brand management on the car market

Brands are communicated through a number of channels. In the automobile industry, advertising on television and in periodicals have been the most significant general communication media, but the primary area of customer contact has been the dealer. However, over the last few years, car buyers have begun to use the Internet as an information medium during the buying process (Connelly,
price premium for a premium product is expected to more than compensate for higher costs. 2

Numerous authors stress the financial implications of strong brands by discussing brand value (Dubois and Duquesne, 1995; Duncan and Moriarty, 1998) and brand equity (Aaker, 1991, 1994; Keller, 1993). A price premium reflects economic benefits of competitive advantages: customers are willing to pay a higher price for a strong brand compared to an average brand. Aaker (1991) like Wileman and Jary (1997) proposes higher margins as a main rationale for putting effort into brand building. Wileman and Jary (1997) have carried out a study on profitability of strong and weak brand retail companies, concluding that strong brands earn higher margins and higher return on assets. This connection was found to be stable over time.

3.2.1. Rational advantages of a strong brand

Kapferer (1997) emphasizes the risk-reducing qualities of brands. Thus, the brand’s function is to overcome the danger of the unknown: “The problem for most buyers who feel a certain risk and fear making a mistake is that most products are opaque: we can only discover their inner qualities once we buy the products and consume them. However, many consumers are reluctant to take this step. Therefore it is imperative that the external indicators highlight the internal qualities of these opaque products. A reputable brand is the most efficient of these external indicators” (p. 27). A brand will thus mean a lower risk for the consumer, as the brand reflects own and others’ earlier experiences with the product. Branding literature suggests a number of risk-reducing qualities inherent in attractive brands: Identification—the customer may easily identify the product (Haigh and Knowles, 2004; Kapferer, 1997; Wileman and Jary, 1997); Guarantee—the brand guarantees a certain level of product quality which saves customer time and trouble (Dawar and Parker, 1994; Kapferer, 1997) and reduces uncertainty: “it reinforces a sense of peer group membership, actual or desired; it reduces worry and uncertainty, and it simplifies choice and saves time” (Wileman and Jary, 1997, p. 17); reliability—based on trust (Achterholt, 1988); optimization—represents one of the best products in its category, the best performer for a particular purpose (Kapferer, 1997); characterization—confirmation of the buyer’s self-image and image presented to others (Aaker et al., 2004; Kapferer, 1997; Wileman and Jary, 1997); continuity—familiarity and intimacy with the brand heritage (Haigh and Knowles, 2004; Kapferer, 1997) and ethical—satisfaction linked to the responsible behaviour of the brand in its relationship with society (Kapferer, 1997).

2Research on dealers’ satisfaction with the importer shows similar results. Prof. Meinig (2003) presents the 2003 dealer satisfaction study based on a survey to 1996 dealers treating 77 aspects of dealer satisfaction. Mercedes and Jaguar top the list of 29 brands. The German DSI 2004 shows similar results, with Subaru, Mercedes and Hyundai at the top and Volkswagen and Nissan having the lowest satisfaction (AW March 16, 2004).
3.2.2. Emotional bases of a strong brand

Strong brands bring both emotional and rational advantages (cf. Parment, 2006a; Urde, 1997). However, there are no clear boundary lines between rational and emotional qualities, and they may even coincide.

A number of authors identify the emotional bases of brands. Authors suggest that consumers view brands as an expression of the self (Aaker, 1997; Fournier, 1998; Ross, 1971). Merritt (1998) argues that for cars, the buying decision is to a great extent determined by emotional values. Some research even suggests that consumers may form relationships with brands in much the same way as they form relationships with each other in a social context (Aggarwal, 2004; Fournier, 1998; Muniz and O’Guinn, 2001). Kapferer (1997) argues that “because humans are social animals, we judge ourselves on certain choices that we make and this explains why a large part of our social identity is built around the logos and the brands that we wear” (pp. 26–27). Kapferer goes on to argue that the identity acquired through an attractive brand cannot be substituted by any other thing. Here, Kapferer refers to credence qualities: “in the market for upmarket cars, the feeling that you have made it, that certain feeling of fulfilment and personal success through buying and owning a BMW are typically the results of pure faith. They cannot be substantiated by any of the post-purchase driving experiences: it is a collective belief which is more or less shared by the buyers and the non-buyers” (p. 28). In the case of luxury brands, Kapferer suggests that a basic principle is to protect clients from non-clients by creating a distance or entrance barriers maintained through pricing and exclusive distribution: “...it must be known by all. Thus, paradoxically, luxury brands must be desired by all but consumed only by the happy few... That is why luxury brand awareness must be superior to its penetration” (p. 82).

3.3. Solus- and multi-franchising

Some authors view solus- vs. multi-franchising as a choice of strategic importance in designing distribution systems. Besanko and Perry (1994) suggest that solus franchising eliminates the separation between retail differentiation and manufacturer differentiation by intertwining all dimensions of differentiation in the demand functions faced by both retailers and manufacturers. However, Rolnicki (1998) argues that from the customer’s perspective, multi-franchising may be preferable because it gives the customer a greater selection and saves time. In a survey study of car consumers, 43% of the customers preferred to buy at a dealership that sells one brand, 19% preferred two brands, 45% three brands, 18% four brands and 10% five or more brands (Hoffmeister and Hunerberg, 1998). Obviously, not even customer preferences appear to be clear in this respect, but may differ among customer groups and brands. In a sense, cost efficiency or distribution efficiency on the one hand and communication of brand values on the other hand may counteract each other: the former speaking for solus franchising and the latter speaking for multi-franchised dealer networks (Hallström, 2000). For instance, manufacturers implement brand separation programmes to make communication brand-specific by eliminating competing brands in the showroom (cf. Hoffmeister and Hunerberg, 1998).

3.4. Retail structure and geography: dual- and multi-distribution

Retail structure and geography are here defined as the number of channels and outlets and their extension in terms of geography and size, including the number of sales outlets and how they are scattered across different types of areas. Parallel distribution channels, e.g. the Internet, entail a number of opportunities for manufacturers to distribute products. Distribution literature does not deal very much with sales through multi-channels, even though some studies may be found. Coate and Fratrik (1989), Stern and El-Ansary (1988) and Rolnicki (1998) investigate dual distribution, which may introduce friction and conflict between the competing channels. Moriarty et al. (1988) study multi-channels with a combination of direct and indirect channels, ‘hybrid channels’, and emphasize the element of competition between the manufacturer and the indirect channels in consumers’ decisions.

In the quest for reducing distribution costs, manufacturers rationalize and restructure their dealer networks and may explore new ways of selling cars, e.g. Internet sales. In this rationalization process, particularly rural retailers may run the risk of losing their franchise agreements (cf. Volks and Michaely, 2002). In the last decade, emergent car sales channels have been widely described in terms of threats to the dealer network (cf. Keel, 1998). Even the potential entrance of new actors may constitute a threat to existing actors, as suggested by Porter (1980). A number of suggestions of new actors in car distribution have been made. Buzzavo and Volpato (2001) propose supermarkets, international arbitrageurs and Internet-based intermediaries but argue that the threat of new actors should not be overstated. First, it seems unlikely that consumers choose them as the key channel, due to the lack of services offered. Second, they may be driven by strict economic criteria. Whiteman et al. (2000) discuss car distribution costs, estimating the distribution costs to be about 20% of the transaction price. The contribution of the retail outlet to total costs is estimated to be around 6% on average, which is very low compared to other industries: “Alternative channels are unlikely to make a major reduction in the costs of retailing—and even halving them would have only a small impact on overall costs” (Whiteman, 2000 et al., p. 61).

3.5. Channel ownership and control

Lusch and Jaworski (1991) analyse the control in retail organizations by focusing on both formal and informal control. They conclude that the entrepreneurial drive itself
constitutes an important control device: the entrepreneur’s self-control and incentives to strive for maximizing profits secures efficiency. This is consistent with studies that suggest that franchised retailers perform better than manufacturer-owned retail outlets because of entrepreneurial advantages. Arruñada and Vázquez (1999). However, as manufacturers and retailers can be assumed to have different goals, the retailer’s self-control may counteract the manufacturer’s intentions. Hoffmeister and Huneberg (1998) and Rafer (1997) study car manufacturers’ control of retailers, revealing an obvious imbalance of power in favour of the manufacturer, with manufacturers controlling retailers with rewards and punishments stated in the franchise contracts. Two bases of the unbalanced relationships exist. First, the manufacturer possesses a large sample of coercive (e.g. termination of the dealer agreement) and non-coercive (e.g. bonuses and assistance) power sources enabling the manufacturer to alter the behaviour of the dealer and to make him comply with manufacturer policies. Second, the dealer agreements are unbalanced—the responsibilities of dealers are numerous and specified in detail, while the responsibilities of manufacturers are few and vaguely detailed. Accordingly, there is a lot of evidence that dealers see agreements as ‘unfair’ (Hamprecht, 2003a, b; John, 2003; Krogh, 2003).

Coughlan et al. (2001) argue that franchise organizations are always unbalanced by nature: “Franchising is inherently asymmetric, with franchisees being highly dependent on the franchisor. Yet, franchisees are entrepreneurs and feel the entrepreneur’s need to be the boss” (p. 560). Pellegrini and Zanderighi (1991) arrive at a similar conclusion: “The implicit assumption often seems to be that manufacturers obtain the kind of distribution they want” (p. 150). Vaughn (1974) suggests the term privilege, which indicates a power balance favouring the manufacturer: “The parent company is termed the franchisor, the receiver of the privilege the franchisee; and the right, or privilege itself, the franchise” (pp. 1–2).

One reason for the manufacturer to sell through own channels is to keep control of the brand and how the products are exposed and presented. Downstream channel members may have a critical impact on the firm’s brand as particularly the dealer is an essential point of contact between the manufacturer and the customer. Coughlan et al. (2001) argue that “the firm’s decision to own some or all of its marketing channel has an enduring influence on its ability not only to distribute but also to produce. The manufacturer becomes identified with its marketing channels, influencing its base of end customers and forming their image of the manufacturer” (pp. 161–162).

As is suggested by Castrogiovanni and Justis (1998), as entrepreneurs, franchisees prefer to set their own direction and control their own destinies rather than be controlled by franchisor management. Thus, there is an inherent conflict in a distribution organization relying on indirect channels. Arruñada and Vázquez (1999) analyse the effects exerted by the choice of organizational form on profitability (ROI-based measures) and efficiency, defined as average productivity of labour, in a homogeneous set of production units. Based on a sample of 223 Spanish car outlets, the profitability of the franchised dealerships was found to be over 20% higher than that of manufacturer-owned outlets. The owners of dealerships were found to manage their outlets more efficiently than wage-earning managers (cf. Smith, 2006): “Dealerships generate much greater incentives because dealers receive the residual income of the business they manage. The incentives for managers of company-owned outlets tend to be weaker because they do not bear all the costs nor receive all the benefits of their decisions” (Arruñada and Vázquez, 1999, pp. 8–9). Motivational advantages are seen as one of the main advantages of indirect channels, as expressed by the founder of Volvo, Assar Gabrielsson: “He who manages his own business and runs the risk of losing his own money works with greater feeling and interest for profits and costs compared to a branch manager” (Plate, 1985).

Integration between manufacturers and franchised dealers may be beneficial to all parties if it is based on a mutual interest: e.g. information and knowledge exchange to accomplish finer segmentation (Segal-Horn and McGee, 1989); a more consistent brand appearance (Huber and Herrmann, 1998); or improved market feedback (Huber and Herrmann, 1998; Segal-Horn and McGee, 1989; van Bruggen and Kacker, 1998). However, a channel relationship is vulnerable to conflicts. Helmers (1974) sees the different goals and interests of manufacturers and retailers as the primary explanation why conflicts arise in an indirect channel system. Conflict as well as cooperation stems from the symbiotic relation between members of the system and is therefore unavoidable: “The channel system is usually made up of a number of legally independent units, each one being free to set goals and objectives of operation that do not necessarily coincide with those of the other members of the system” (p. 21).

4. The case: distribution of premium and volume brands

Here, the empirical account of the case study on automobile distribution in Australia, Germany, Spain, Sweden and the UK will be presented. Like numerous other consumer industries, e.g. clothing, white goods, brown goods (DVD players, television, etc.) and food, the automobile industry is subject to heavy manufacturing overcapacity and a high level of competition. Beginning with the oil crisis in the early 1970s (Dicken, 1992; Scherer, 1996), the automobile industry matured, which gradually led to a buyer’s market characterized by excess supply and a gradual disappearance of first time buyers (Maute and Forrester, 1998; Scherer, 1996). Manufacturing overcapacity is estimated to exceed 40% (Hökerberg, 2000, auto motor und sport, 2006), which gives rise to strategies, e.g. consumer purchase incentives that have the effect of stocking the distribution channels (Ciferri, 2002), thus
distorting supply and demand mechanisms (Parment, 2005).

Particularly UK interviewees argue that the car has increasingly become a symbol of affluence: “As we’ve got richer as a country and people’s expectations have risen, and the GBP has gone up, people turn to [premium] brands, and everyone wants to have these brands” (dealer group CEO); “If you go back to the 70s, cars became a fashionable, it became a symbol of your affluence or your personality, it became a fashion, it’s about you; cars were no longer about getting from A to B” (importer, UK).

For cars, profit margins tend to rise disproportionately with vehicle weight, which is the traditional hallmark of luxury: “Prices rise nonlinearly with vehicle weight. But vehicle costs rise less than proportionately with weight” (Scherer, 1996, p. 302). Berry et al. (1993) estimate that the margin of price above marginal production cost excluding fixed-cost allocations was $801 for a subcompact Mazda 323, $1077 for a subcompact Ford Escort, and $10975 for a BMW 735i (1990 figures). In the fiscal year 2000/2001, Porsche’s operating profits were 12.1% and BMW’s 7.8% whereas by contrast, volume brands, e.g. Renault-Nissan, Fiat and DaimlerChrysler, showed profit figures between 1% and 2%. Ford and General Motors are running on great losses (cf. Kiley and Welch, 2006; Newman, 2006; Mackintosh, 2005). Substantial differences in profitability between premium and volume brands appear to be an important driving force in car manufacturers’ ambitions to go upmarket and attempts to create a premium brand.

Competition and profitability differ across brands, and all interviewees agree that volume brands face stiffer competition than premium brands. Particularly multi-franchised dealers with both premium and volume brands in their portfolios experience substantial differences in profitability across brands. Demand exceeding supply is likely to result in higher residual values and more profitable dealers and manufacturers.

The differences between premium and volume brands result in some implications for the way cars are distributed, marketed and sold. The interviewees experience that the demand for premium brands is ‘automatic’ while volume brands have to discount and incentivize the products to be able to sell them: “Exclusive brands seem to be gaining in strength day by day, they’ve got very focused marketing, product-led marketing, and the brands are getting stronger. Audi and BMW can pre-sale a new car, we have the new Saab 9-3, people are interested but nobody has given us a deposit, whereas the German makes can sell cars on the strength of the brand alone, and that has all to do with the strength of the brand. If you want a BMW, you will buy a BMW people won’t buy a Saab until they drive it, the brand isn’t strong enough” (Saab metro area dealer, UK).

Because of the lack of natural demand, Saab dealers have to sell on price to a great extent, and they struggle with the importer on strategies and incentives: “Saab hasn’t got the strength of the brand that we’ve got people walking through the showrooms that we can just sell the product, make a deal, the difference between Saab and BMW, we sell on price, they sell on brand” (Saab city are a dealer, UK).

4.1. Customer behaviour: premium and volume customers

The study reveals some insights into different customer groups and relations between brand, retail structure and customer profile emerge. Dealers perceive customers of premium and volume brands to be fundamentally different and dealers do not hesitate to categorize customers. Only one out of 84 interviewed dealers suggested that “I wouldn’t distinguish between the customers on that basis.” Particularly multi-franchised dealers have strong opinions on customer behaviour, based on brand: “The expectation of the Skoda customer is very low, and they’re always pleased with what you do for them. And obviously, they are blue-collar; VW, solid middle-class, highly intelligent, well-informed, very brand-conscious, image-conscious, and if it goes wrong, you’ll know, they will complain; Audi, has got a very nice customer, highly intelligent, well-educated, wealthy. Slightly more laid back in their approach than the VW customer, but demanding, not brushy, very respectable for what you do”. (CEO, dealer group, UK); “If I would stay behind the curtains and look at the customers, I would easily recognize Skoda, Volkswagen and Audi customers” (Swedish rural dealer). Dealers do not hesitate to describe particular customer groups in negative terms, A German dealer even referred to Opel customers as ‘intellectually very narrow-minded’ as compared to VW and Audi customers. Although most interviewees have very clear conceptions of differences between customer groups, it may be dangerous to categorize customers since some customers keep more than one car in the household, e.g. one premium car and one volume brand car. The more the marketing is directed towards a specified customer group, the higher the risk that potential customers may feel, or be excluded, so market segmentation is not as easy as it may seem.

The perceived big differences in terms of customer behaviour and expectations is seen as a rationale to create separate showroom spaces for different brands. The interviewees suggest that there are substantial differences in terms of customer expectations. Dealing with premium customers appears to require more from the dealer, which taxes on resources. However, purposeful and consistent efforts may result in above-average profitability and a self-reinforcing wheel of attractiveness: an attractive brand attracts skilled employees, which in turn adds prestige to the business. While volume dealers in general find it difficult to invest, premium dealers have the profitability to make investments.
One of the main advantages of premium brands is the higher residual values which may make cost of ownership lower than for volume brands: “Because they are exclusive, they’ve got excellent resale value, the BMW 318 is ranked as Australia’s best resale value car, it will have probably 75 or 80 percent resale value after two years whereas a [Ford] Falcon has 45, 50 percent” (rural area dealer, Australia); “One of the real benefits of Mercedes-Benz, the economic risk is much lesser compared to others because of its high resale value” (metro area dealer, Australia). Numerous interviewees refer to residual values as an indispensable part of product attractiveness. If the new car is sold with low or no discount, the residual value will be higher than for a car which is sold with big discounts. Volume brands suffering from heavy manufacturing overcapacity may be forced to give heavy discounts. Particularly fleet sales to, e.g. rental car companies may undermine residual values. “I think Opel or Vauxhall in this country, they’ve realized they are a volume manufacturer. Vauxhall fleet colleagues will sell it with 20 percent off, because the Vectra is always suffering from heavy manufacturing overcapacity may be forced to give heavy discounts. Particularly fleet sales to, e.g. rental car companies may undermine residual values. “I think Opel or Vauxhall in this country, they’ve realized they are a volume manufacturer. Vauxhall fleet colleagues will sell it with 20 percent off, because the Vectra is always going to be a fleet car, it’s not a retail car, you don’t get a man walking off the street and want to buy a new Vectra… their residual values really suffer at the back-end because you can buy six months old for 30 or 40 percent less than the original list price, it makes the new car retailing very difficult” (multi-franchised group, UK).

Primarily for premium cars but also to some extent for volume cars, the customer’s desire for emotional product characteristics may be a huge profit opportunity. Numerous dealers refer to customers’ propensity to spend more money on the car than they originally intended by adding optional equipment or buying a more expensive model.

4.2. Direct channels vs. indirect channels

While most volume brands rely on indirect channels, except in metro areas where cost of land is very high, premium brands in general have a mixture of direct and indirect sales channels. The aim of an indirect channel may be to replicate a manufacturer’s direct channel and fulfill the manufacturer’s intentions, thus assuming the manufacturer’s role as channel captain. However, substantial differences exist between brands in this respect, apart from the structural choice of direct or indirect channels (cf. 

The dealers in the study evinced different attitudes towards external influences and changes. With few exceptions, premium dealers were proactive, thus seeing changes primarily as opportunities while the majority of volume dealers were reactive, thus complaining on changes emerging from the manufacturer and the environment. However, a number of proactive volume dealers accomplished great success with innovative business models and a strong belief in the brand/s they were selling. For instance, premium and volume dealers tend to have different opinions on the principles and objectives of the margin system. While volume dealers perceive any margin reduction as the manufacturer’s attempt to squeeze dealers, premium dealers rely on the net margin, which is substantially higher than for volume dealers: “Our gross margin is probably one of the lowest, but our retained margin is one of the highest, except Porsche. We don’t
collude with other dealers and talk about discount levels, but we certainly have a similar attitude towards discounts... most top-of-the-range products in any field, you never see Mont Blanc selling cheap pens or Rolex selling cheap watches”; “For Mercedes it’s very good, we don’t discount them, there is no need to... we describe a level of discount as a cost of business” (Mercedes dealers).

A dealer may see the margin systems as either putting the dealer’s margin at risk or as an opportunity to earn money. While the former group of reactive dealers argues that it is difficult to know in advance whether bonus will be disbursed—“I actually don’t know my margin in advance”—the latter group of proactive dealers argues that the structure of the standards that determine margins is very clear. The system may give a competitive advantage to those dealers who agree with the system and comply with the standards. The empirical data suggest that the attractiveness of the product and the brand and also supply–demand conditions determine the retained margins. Competitive forces thus determine retained margins rather than the gross margins. For a volume brand under pressure from overcapacity and competition, regardless of the gross margins, the dealer is likely to haggle away all but a few percent.

The study reveals substantial differences between premium and volume brands in terms of propensity to invest, which reflects the trust in the manufacturer’s long-term strategies. Particularly if the manufacturer wants dealers to invest in brand-specific facilities and systems, a high level of confidence is necessary. Premium dealers in general do not complain very much as they see both brand identification and high standards as indispensable parts of the premium brand strategy—and they are in most cases sufficiently viable to afford the investments. Hence, coordinating the distribution chain is a lot easier with strong premium brands, which entail a higher satisfaction across channel members. With few exceptions, dealers who have confidence in their manufacturers represent premium brands or strong volume brands. The opposite, dealers with little or no confidence in their manufacturer, refer to a lack of long-term thinking and instable profit opportunities, because of a lack of product attractiveness and unstable dealer terms. Volume dealers with a proactive attitude proved to have an advantage over their volume brand competitors.

4.2.2. Brand and franchise attractiveness

The awareness and perceived attractiveness of a brand and its products appears to have far-reaching implications for the manufacturer–retailer relationship: a manufacturer who supplies attractive products is likely to have a strong brand and will thus be able to attract strong dealers. Both dealers and manufacturers emphasize the product as the decisive factor. A number of interviewees describe strong relationships as a self-reinforcing wheel, based on attractive products: “The manufacturer will always get the dealers they deserve, because they dictate how much you will make; if you squeeze your dealers, you don’t allow them to make a decent profit, they won’t do their best and therefore your brand will be static. If you allow the dealer to make a good return, he will invest in customer care, he will invest in people, he will invest in process, and he will invest in marketing” (dealer group CEO).

5. Discussion and implications

5.1. Distribution efficiency vs. brand communication

The study identifies a tension between distribution efficiency and brand communication. The fundamental tension appears to be inherent in distribution systems. The findings are consistent with, e.g. Silverstein and Fiske (2003) who refer to customers’ increasing emotional awareness expressed through an interest in self-fulfilment and self-esteem. Car manufacturers can make use of this interest by producing cars that appeal to emotions. On the car market, any distribution setting entails cost and branding considerations but the importance of cost and brand focus, respectively, appears to differ across brands. Thus, the level of value-adding varies, which in turn reflects variations in customer expectations and requirements. General statements of distribution chains adding customer value (e.g. Dawson and Shaw, 1990) have to be refined. Based on the assumption of distribution consistency, the potential of and benefit from adding value in the distribution chain is lesser for a volume brand than for a premium brand, where there is a greater customer willingness to pay.

5.1.1. Matching the brand with the distribution chain

Dealer network consistency is a question of matching product premiumness with premiumness in customer face areas. To create a healthy balance between cost focus and brand focus, it is important to consider what is relevant from the customer’s point of view. For volume brands, a premium attitude may even make customers feel uncomfortable while lack of a premium attitude is likely to be perceived as a disadvantage from the premium customer’s point of view, see Fig. 1.

For a premium brand, matching the distribution strategies to the brand makes it possible to integrate the manufacturer’s differentiation at different levels of distribution as proposed by Besanko and Perry (1994). Accordingly, premium brands enjoy a higher rate of solus dealers who are dedicated to the brand, using their motivation to focus on the brand. The good relations between manufacturers and dealers may be explained by the explicit interdependence: The dealer needs the manufacturer, as a lot of investments in the brand have been made, but the manufacturer also needs dedicated dealers who provide a crucial arena for communicating the brand values. A rationale for solus channels is that multi-franchising steals the dealer’s focus of attention. When a dealer starts selling other brands, all decisions are weighed
with regard to what is best for the dealer, whereas in a solus setting the dealer is focused on the one and only brand. Solus strategies emphasize the brand and the cooperative interplay between channel members committed to the same brand. As a contrast, multi-franchise strategies reduce brand focus but emphasize market forces, manifested in channel members’ striving to find profitable cooperation partners, which may give unprofitable dealers an opportunity to change to a more attractive and profitable brand. The multi-franchising structure makes it easier to change brand than in a solus setting, since manufacturers and dealers are less integrated.

5.1.2. Premium and volume brands in a mature market

A general change in customers’ purchase criteria along with the car market’s high degree of maturity entails a heavier focus on emotional values as opposed to functionality and usefulness. This change is consistent with thinking in marketing theory: Models of product life cycles emphasize the transition in product emphasis during the course of a product’s life cycle (cf. Levitt, 1965; Lu et al., 2007). Characteristics of the different stages in the product life cycle may be described in different ways, and the stages may be conceptualized in different ways (Box, 1983; Fox, 1973; Hill and Jones, 1998; Levitt, 1965; Wasson, 1974). However, what these definitions have in common is that the supply of products increases as the product approaches the mature stage (cf. Lu et al., 2007; Thorelli and Burnett, 1981). Applying the product life cycle to the car market signifies that the increasing variety of product types and models manifests a more diversified market better adapted to the needs and desires of different consumers, and furthermore, that this transition has an emotional bias. Markets with high overcapacity are by definition competitive, while there are more products for sale than buyers who demand them. Under these circumstances, premium and volume brands appear to be based on different logics and assumptions depending on the brand profile.

The study reveals some insights into the mechanisms underlying overcapacity. As was discussed earlier in the article, the literature on distribution chains, including studies dealing with the automobile industry, gives little or no attention to overcapacity. Under the pressure from overcapacity, manufacturers may become inconsistent in their distribution approaches. On the one hand, manufacturers encourage dealers not to sell products from stock but rather order a product that is specified in accordance with the customer’s preferences, based on the argument that a customized product makes the customer more satisfied, which reduces the need for high discounts. With an order-to-delivery approach, the dealer does not have to carry stock, which saves money. However, overcapacity puts pressure on manufacturers to force pre-produced cars on dealers and to offer incentives to persuade dealers to take on cars. This inconsistency irritates dealers and harms residual values: It is difficult to deal with a situation of products not being desirable at the retail price. However, as we will see, a clear difference between premium and volume brands emerges.

The empirical data suggest that attempts to implement customer-pull systems will hardly materialize under substantial overcapacity. Calculations of cost savings of 900 euros a car (Ciferri, 2002; EMCC, 2004) may thus be reserved for manufacturers who succeed in keeping demand in balance with supply. Visions on efficient customer-driven pull-systems, e.g. that of Whiteman et al. (2000), thus is suggestive of premium brands: “Yet this is a ‘win-win’ vision in which every one is better off. It is truly customer focused, while still taking full account of the needs of the dealer and the manufacturer. It is jointly managed as an integrated system while leaving room for individual initiative. Everyone is focused on improving customer satisfaction and adding value, removing the waste and costs involved in fighting each other as in the past. Rethinking the system in this way overturns the assumptions that better service costs more and that the easiest way to cut costs is to squeeze the other person’s margin” (p. 15). The empirical data suggest that a transition from a push system to a customer-pull system is very difficult for volume brands, thus it questions the feasibility of Whiteman et al.’s customer-pull philosophy. Whiteman et al. do not discriminate between premium and volume brands.

The essence of Whiteman et al.’s (2000) idea assumes that through better planning and timing decisions, we could move from a push to a harmonic pull situation: “It will create an environment in which the culture of all the players in the supply chain can change, from the
confrontational relationship of a stock-push system to one of partnership and cooperation” (p. 27). A great deal of research (e.g. Ciferri, 2002; Rafer, 1997; Whiteman et al., 2000; Williams et al., 1998) has been questioning the predominating push approach without taking overcapacity and brand profile into account, arriving at the conclusion that a transition to a pull system would entail substantial cost savings. However, the empirical data of the present study suggest a number of rationales to reject the pull philosophy for volume brands:

- The level of competition for volume products is very high, thus the customers, who are not very loyal, are not willing to make substantial sacrifices to get a particular brand, e.g. wait a couple of weeks for the car. The empirical data suggest that immediate delivery drives volume.
- Marginal costs for building a car are low while costs for product development, factory facilities and marketing are high; thus volume brand manufacturers have incentives to boost volume.
- The entire distribution chain is focused on volume: For manufacturers, importers and dealers, the wisdom and way-of-thinking to a high extent emphasize volume, including reward systems. Overcapacity has strengthened the foothold of volume and sales figures in recent years for volume brands, which is reflected in very optimistic sales forecasts. Thus, a transition to pull thinking would mean a cultural change in management compensation philosophy.
- The logic of volume brand chains is that the entire chain benefits from higher volumes, since more cars means more profitable after-sales services, including more spare parts.
- One of the rationales for a pull approach is that the customer has the opportunity to configure the vehicle according to his or her preferences. The empirical data do not support this argument for volume cars. With few exceptions, the cars available from dealers’ stock have the equipment buyers look for, and if not, the buyer normally has the opportunity to order a car. To some extent, the market has become standardized: Most cars are built with the necessary equipment, and cars in popular colours seem to attract the majority of customers.

Based on the reasoning above, a logic of premium cars being customized and volume cars being sold from stock emerges. Thus, implementing a pull approach may not be an appropriate approach for volume brands unless there exists a very clear strategy to go upmarket. For premium brands with demand exceeding or on a par with supply, pull is likely to work. The pull thinking to a great extent characterizes a premium chain, with higher costs on a cost-per-unit basis, which is covered by substantially higher retained margins. Premium chains have a higher need for coordination, in a formal, as well as in an attitudinal sense. In a premium chain, supply and demand are in a reasonable balance, thus, efficiency in the distribution chain may benefit from integration as suggested by Buzzavo and Volpato (2001). Coordination in terms of marketing and sales could improve both efficiency and customer satisfaction. A reasonable balance between supply and demand is likely to result in reduced costs for keeping products in stock, and all actors benefit from customers ordering and getting a product that matches with his or her preferences. In a similar manner, marketing activities are likely to be better coordinated and more effective in premium chains, partly because of the higher brand commitment, partly because of the size of the distribution organization: Premium brands normally have fewer dealers than volume brands, which facilitates coordination.

Premium brands may have factory capacity to increase production, but they avoid supplying the market too heavily. Balancing the desire to increase volume while at the same time securing supply not exceeding demand is a delicate operation. In premium chains, customers, dealers and importers share the ambition to avoid oversupply since the supply of a typical premium chain is demand-induced, thus being similar to the customer-pull approach proposed by Whiteman et al. (2000).

In the case of volume chains, although the available technology enables integration between channel members—e.g. the manufacturer’s production planning, importers’ systems and dealers’ planning and order system—the advantages of integrated systems are restricted under overcapacity. The empirical data suggest that overcapacity produces an entirely different pattern of planning, ordering and selling, and particularly volume chains suffer from industry overcapacity. The advantages of integration described by Buzzavo and Volpato (2001) cannot be fully utilized under overcapacity since the pressure to stuff the channel and push cars onto the market prevails over coordination and a shared commitment to strengthen profitability and the brand.

5.2. Distribution strategies and brands

5.2.1. Revisiting brand theory: the need for consistency

In general terms, the findings are consistent with the perspectives on consistency proposed by, e.g. Duncan and Moriarty (1998), Kapferer (1997) and Keller (1999). However, the empirical data suggest some refinements of the contemporary thinking about brands. Dealers selling premium brands refer to the long-term strategies of their manufacturers as a sound base of viability, signifying consistency over time in terms of dealer terms and conditions. Dealers have confidence in manufacturers who make sure that dealers are sufficiently well off in terms of attractive products, profit opportunities and demands on investment to make the retail business consistently viable. A strong brand and a strong channel
capitan makes it possible to hold together a distribution system even under pressure from stiff competition, through securing consistency, viability and profitability.

5.2.2. Discounting and price premium

Premium manufacturers in general has a greater freedom to decide on discount policies since the sales of the products to a great extent are based on a natural demand. Hence, premium brands are less dependent on sales volume to secure viability. This may be translated into an advantage for the premium products; clear policies for discounting may be implemented at the sales level, which all actors can agree on. This may be much more difficult to sustain for volume brands; according to the empirical data, attempts to restrict discounts—which may be against the Competition Law—do not last for long. Volume brand dealers experience that they are forced to sell cars; soon one or another dealer will infringe against the agreement and discount the car a little bit more than the agreement permits.

The empirical data support the idea that a strong brand is associated with a price premium (Aaker, 1991; Kapferer, 1997; Keller, 2003; Wileman and Jary, 1997), in this study reflected through higher prices, higher retained margins and fewer substitute products. The price premium charged for a premium brand is not only manifested in the price-list but also through a different discount philosophy, which gives the premium product a price premium bigger than it may appear. As a premium product is differentiated and has fewer close substitutes than a volume product, premium dealers face less competition and extract higher margins.

5.2.3. Brand identity and the customer perception

An interplay between the brand and its customers emerges: Customers representing values similar to those underpinning the brand are likely to strengthen the brand and, in a similar manner, the brand is likely to strengthen the image of the user. Customer profile thus constitutes an essential part of the brand image. This is part of the explanation why brand separation may strengthen the brand: The customer’s brand identification is stronger in a solus retail environment. The high consistency in the communication of a premium brand is manifested in a shared interpretation of the brand message as well as a strong relationship between the interpretation of the brand message and the people who buy the brand. The study thus suggests customer profile as one of the factors that constitute the brand image. This is hardly dealt with at all in literature on branding. Keller (1999) views improvement of brand image in terms of retaining vulnerable or recapturing lost customers and identifying neglected segments, but the role of customer profile is not discussed. The emphasis on customer profile in strengthening a brand may signify that manufacturers may not want customers who do not correspond to the brand values. There may be customers who want access to the values that the brand represents, but if these customers do not represent the brand’s values in a proper way, the brand image may suffer.

One issue not discussed very much in brand theory is the importance of communicating with non-customers. Communicating with non-customers is particularly important for premium brands. As is suggested by Birkigt et al. (1992) and Duncan and Moriarty (1997), consumers automatically integrate brand messages, regardless of whether they will buy the brand or not. It is also beneficial if people not belonging to the target group are conscious of the brand values. The aim is to build a desire for the product also by those who cannot afford to buy the brand. Customers may not prefer or like the brand, but if they know and understand its essence, it will facilitate brand communication and positioning. The findings are consistent with Kapferer (1997) who argues that a premium brand “must be known by all” (p. 28), and “must be desired by all but consumed only by the happy few” (p. 82).

5.2.4. Implications of premium brands

The shared interpretation of the brand across actors facilitates market communications and substantiates the underpinnings of the brand. The findings of the study are consistent with brand theory and its emphasis on the brand message being distinct and consistent with a generally agreed perception, thus expressing values that are rather stable over time. In order to uphold the strength of the brand, different areas of marketing and communication require attention and coordination. Since margins are higher for premium brands, more resources are being allocated to activities such as public relations, showroom design, customer call centres and salesman education. These measures cost money but support the brand image.

Premium brands create a natural flow of customers wanting to buy the products, which is translated into a more stable and consistent demand. Premium brands may sell on the strength of the brand, thus enjoying more customers buying on brand, and not primarily on price. In general, premium brands have a healthier balance between demand and supply meaning less volume pressure, although even premium brands face a tendency to oversupply. The higher demand means less discounting. In general terms, premium brands discount the products less than volume brands, which is a clear advantage for the dealer through higher retained margins. Partly due to lower discounts, partly due to higher product attractiveness, premium brands in general enjoy higher residual values, thus, customers enjoy an advantage through a lower cost of ownership.

Premium brands represented in the study evinced a generous attitude towards their competitors. While premium brands discuss competitors’ moves as ‘very clever’ and ‘quite understandable’, volume brands blame competitors for destroying the market through giving big discounts. The level of satisfaction for dealers who stay with strong premium brands is striking. This goes back to the
mechanisms that underlie supply, demand and competitiveness: For volume brands, competitors offer close substitutes; thus competitors’ moves have an impact on the own business. A premium brand, on the other hand, is still affected by competitors’ moves but sells on differentiation advantages which sustain competitors’ moves. Thus, a premium brand provides some protection and hedge against competition, which is particularly important under heavy industry overcapacity.

The strength of the brand is reflected in the power distribution; a channel member possessing a premium brand is likely to derive a lot of benefits which reflects the power that the brand entails. For instance, strong brands attract strong dealers and vice versa. Regardless of position, a strong brand brings certain standards to the occupation. Selling a premium brand brings more prestige than selling a volume brand, which in general makes a premium dealership a more attractive employer than a volume brand dealership.

5.3. Managerial implications

Based on the findings of the study, some implications for distribution strategies for premium and volume brands are proposed here.

5.3.1. Distribution strategies for premium brands

The premium brand distribution channel is to a great extent controlled by the manufacturer in order to protect brand values and secure successful communication of the brand throughout the channel. As is suggested by, e.g. Birkigt et al. (1992) and Duncan and Moriarty (1998), the manufacturer’s control of market communications is essential to the consistency of the brand. It is typically solus at all levels, including retail facilities, management and ownership, to create an integration of the manufacturer’s differentiation at all levels of distribution in accordance with, e.g. Besanko and Perry (1994). A certain level of long-term dedication to the brand is inherent in the premium channel, as suggested by Rolnicki (1998), who argues that solus franchising secures long-term commitment. In creating and maintaining a strong brand, the distribution system is crucial. The findings are consistent with Kapferer (1997, 2004) who argues that controlling the distribution system is essential to gaining control over the image and the brand.

In the premium channel, the brand is reflected in all activities to create and enhance a consistent brand identity. Consistency benefits from actors at different positions in the distribution chain communicating the brand in a similar way. The manufacturer’s brand and the dealer’s brand may strengthen each other rather than competing for attention, since both the manufacturer’s branding and the dealer contribute to creating the image of the brand. The brand also brings certain standards to the occupations and functions in the channel, thus the most talented people for the purpose of the brand can be recruited. High level retail facilities does not only contribute to brand consistency and premium standards, but is also a customer requirement for premium products. Well-informed and demanding customers create a strong pressure on premium brands to behave in a consistent and honest way, thus premium brands have to constantly consider the risk of conceitedness, which is likely to harm consistency and brand image.

In terms of retail structure, the manufacturer has a high level of control over the number of dealers and their location. Premium brands are likely to use a mixture of direct and indirect channels with a significant representation of manufacturer outlets to promote the brand. Although franchised dealers are likely to perform better than manufacturer outlets in terms of cost-efficiency, as suggested by, e.g. Arruñada and Vázquez (1999), the premium channel is likely to benefit from the existence of a direct channel since protecting the brand is more important than finding the highest efficiency.

5.3.2. Distribution strategies for volume brands

The overall attitude of the volume brand channel is a focus on sales and volume, and intrabranch competition drives volume. Volume brands have to deal with both pressure to minimize distribution costs, and stock-holding of overproduced cars, the latter being necessary to maintain volume. Lean distribution strategies based on cars built to order might not produce sufficient pressure to maintain volume. Thus, an ability to handle stock is necessary. A volume brand would benefit from a strong brand knowledge and the ability to offer a broad range of services, carried out in a cost-efficient manner to satisfy the needs of the general buying public. The volume dealer would enjoy a great deal of freedom in terms of attitudes and how customers are addressed, based on manufacturer supply of marketing tools. The role distribution is clear-cut and both manufacturers and dealers focus on their core competencies: manufacturers manage the overall marketing while the dealers explore and take advantage of local market opportunities. Manufacturer control of dealer branding is weaker than in premium brand channels. Thus, the dealer keeps some freedom in how to operate the retail business and the volume brand channel has a stronger foothold in the local market, at the cost of less global brand content. While manufacturers promote their identity, dealers have the opportunity to promote theirs. In motivating franchised dealers, opportunities to adapt to local conditions, thus applying the entrepreneur’s ideas of running the business, may be crucial (Parment, 2005; Rolnicki, 1998; Salzer, 1994; Whiteman et al., 2000; Wittreich, 1962).

The specialization in handling high volumes at low cost provides a hedge against emerging channels. Volume brand retail units are likely to be fairly big in terms of size and volume, which keeps overhead costs low on a cost per unit basis. Volume brands solely sell through franchised dealers to promote efficiency. Because of the different incentive mechanisms, franchised dealers are likely to perform better
than manufacturer outlets in terms of cost-efficiency. For volume brands, the advantages of manufacturer outlets are not likely to compensate for the lower efficiency.

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