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## Coopetition as a way to reinterpret distribution relationships with emerging automotive dealer groups

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**Abstract:** Auto makers should gain their dealers' trust to build collaboration and be stronger in market battles. This is far more compelling if it is seen in the light of the emergence of new distribution operators such as dealer groups. This paper explores this domain to understand how the relationship can be optimised. The major findings of a research, made with 250 Italian authorised dealers, let us conclude that dealer groups need customised approaches from their suppliers. We sustain the hypothesis that the relationship with dealer groups is a dynamic equilibrium based on the co-existence of coercive and collaborative strategies.

**Keywords:** coopetition; relationship management; car distribution; automotive.

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**Biographical notes:** Giancarlo Nadin is an Adjoint Marketing Professor at the Catholic University of Milan, Italy. His research interests are the industrial organisation of various distribution channels such as automotive distribution and marketing as well. He has just completed a research aiming to understand the behaviour of Italian motorists towards NGVs. He is a Consultant to many Italian branches of OEMs.

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### 1 Introduction

Traditionally, the automotive market has been defined for many decades as a "seller market" (Lugli and Volpato, 2007) since demand was higher than production.

This condition, connected to the value-added relevance of the auto maker over other channel operators (dealers, workshops, spare parts resellers, *etc.*), has confirmed the unbalanced dependence of the latter.

The transition to a 'buyer market', which corresponds to the turnaround of the rapport between demand and production, has slowly deteriorated the equilibrium between the two parts.

Strong competition has imposed that dealers allow discounts to final customers despite the fact that the dealers' reward (granted by auto makers) is not as appealing as in the past (Volpato and Buzzavo, 2003).

Consequently, car dealers' motivation to accept an unbalanced franchise system has gradually diminished. Automaker's channel management has also been influenced by the market evolution.

The traditional automotive channels of distribution have been guided by the classical "role theory" approach (Castaldo, 2005; Broderick, 1998). Auto makers, as the dominant organisations in a channel, define the processes, rules and roles to be performed by each channel participant. In this frame, suppliers become an uncertainty absorber protecting all the other operators. This method of channel management is always socially correct since it controls and minimises the effect of double marginalisation (Betancourt and Gautschi, 1998), bringing to the final customer the best deal.

The enduring saturation process of the market has contributed to moving the equilibrium from the upper part of the channel (the Original Equipment Manufacturer or OEM) to the lower part represented by the sales processes conducted by dealers with the final customers. This means that auto makers are partially reducing their control of the car commercialisation process. Consequently, traditional business mechanisms based on role theory still do not work properly.

## 2 The nature of the relationship

The abovementioned considerations are intuitive as far as markets become more complex and turbulent. It is also easy to recognise how the relationship concept has evolved during these decades as a consequence of market development. In this framework, we have surveyed a sample of authorised Italian car dealers to understand what their perception is about their relationships with their suppliers.

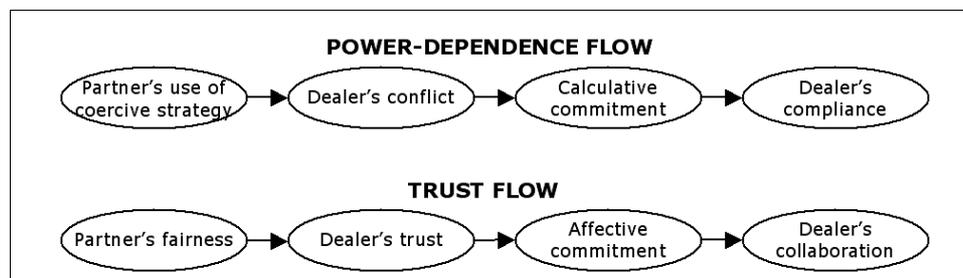
The 245 dealers interviewed from April 2007 to June 2007 from a population of 3800 operators offer us a multifaceted portrait of their rapport with their principals.

Leaving the opportunity to deepen this research's results in a dedicated contribution (Nadin, 2008a), it is crucial to outline the emergence of two interrelated flows enabling the soul and backbone of the relationship.

The asymmetrical power of the auto maker creates a feeling of strong dependence. In the meantime, the channel members give their suppliers their trust and take a loyal approach. It seems that dealers exhibit schizophrenic behaviour: they believe in their partners but, at the same time, adopt an 'arm's length' approach that frightens coercive initiatives and incites retaliation from the partner.

Figure 1 shows the two coexisting flows, which are represented in a cause-effect ladder.

**Figure 1** The interpretative model of the auto maker-dealer relationship



Furthermore, a cluster analysis (Nadin, 2008b) of the survey's respondents has shown that their perception of their dealers is not clear in terms of the feeling of trust or power and dependence; therefore, we can assume that the two apparently antithetical flows qualify the relationship between the respondents and their dealers as a multifaceted one (Zerbini and Castaldo, 2007).

In asymmetrical relationships, such as those in the automotive distribution domain, the decision to set the equilibrium of divergent forces is made by the dominant organisation. Cluster analysis of the Italian survey respondents has also shown that the relationships' status is inclined to be perceived as more towards power-dependence determinants than trust determinants. This is because the historical frame for these relationships has always seen the supremacy of suppliers over the dealers.

We ask if this frame is still valid or has to change not only in the perspective of the aforementioned market evolution, but also in accordance with the birth and growth of the dealer group phenomena (Buzzavo, 2008).

We can assume that dealer groups change the shape of relationships since their 'weight' in relationships is higher than that of traditional dealers. Dealer groups sell many cars per year and are usually multifranchise. This means that their dependence on one supplier is reduced and their relationships are less asymmetrical (on behalf of the auto maker) than what is normally the case. As far as this consideration is concerned, we inductively hypothesise that the perception of dealer groups is more inclined to conceive a trust-based relationship and, therefore, the behaviour of auto makers should be more oriented towards finding a compromise in power exercises and a fair and loyal approach with respect to their partners.

In the next section, we will try to verify this hypothesis and outline a potential trajectory for the evolution of relationships from the auto makers' perspective.

First, a brief introduction to dealer groups is required to put them in the framework of the evolution of automotive distribution networks.

### 3 Special issue: dealer groups

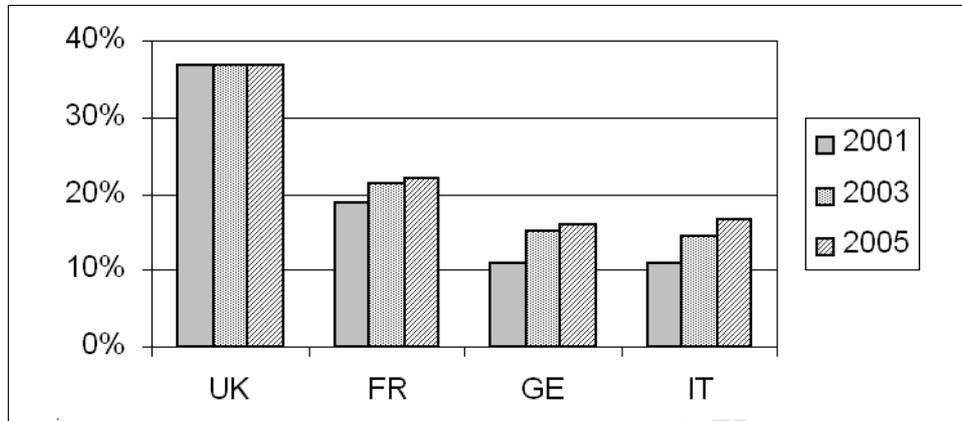
It is not easy to evaluate the concrete outcomes emerging from the application of the Block Exemption Regulation (BER) No. 1400/2002. One objective that certainly seems to be reached is the rise of multifranchising (Lugli and Volpato, 2007). In the report commissioned by the EC Directorate of Competition, London Economics (2006) showed the great increase of the percentage of multifranchising on the total number of dealers.

Multifranchising does not mean *per se* that dealer groups, since the new BER, give the change to manage one or more franchises under the same company and this opportunity can also be exploited by family-owned dealerships.

Dealer groups actually represent the main factor that contributed to the recent increase of multibranding in the automotive distribution market (Commission Evaluation Report, 2008).

On the other hand, the International Car Distribution Programme (ICDP), cited by Lugli and Volpato (2007), declared that the market share of new cars sold by dealer groups (top 50 dealers) has increased considerably from 2001 to 2005, especially in certain countries where this phenomena has been neglected for many years, such as Italy. Figure 2 shows the market shares in the four analysed countries.

**Figure 2** The market share held by the top 50 independent dealer groups in four EU member states



Source: Lugli and Volpato (2007) based on ICDP's research data

Leaving the UK, where the distribution structure already has a high level of concentration, the market share of the other countries (France, Germany and Italy) increase at an average of two percentage points per year.

Therefore, it is arguable that the auto maker management approach should be at least slightly more tinged with noncoercive strategies to create a trust-based relationship, in order to obtain by return more collaboration from dealer groups.

#### 4 The relationships with larger Italian dealers

To understand if the perception of larger Italian dealers about their relationships is more inclined towards trust than confrontation, we have extracted from our sample of 245 Italian survey respondents the ones who could be classified as larger dealers, such as those who sell more that 3000 cars and work with one or more auto maker groups.

The subsample composition, as reported in Table 1, shows the dimension relevance of these dealers. The selected 27 larger dealers have, on average, a portfolio of 3.7 franchise agreements that principally belong to 2 auto maker groups, while the total sample (245 respondents) handles 2 brands with 1.5 industrial groups. Also, the volumes of sold cars are different: the total sample sells an average of 500 to 700 cars per year, while larger dealers account for total sales of over 3000 new vehicles. Approximately 5 out of the 27 operators included in this subsample of larger dealers belong to the Italian 'Top 50' dealers classified by the ICDP.

This means that the subsample is mainly composed of operators whose dimensions can be classified as between the major dealer groups and traditional average dealers. Therefore, they can be labelled as the larger dealers whose characteristics can be identified in the sustained volume of cars sold yearly and the prevalence of multibranding and multisupplier management strategies.

**Table 1** The composition of the subsample of larger dealers

Volumes	Automaker groups								Total sample	
	One		Two		Three		Four			
	No.	Brands	No.	Brands	No.	Brands	No.	Brands	No.	Brands
From 3k to 5k	2	2.0	9	3.4					11	3.2
More than 5k	3	2.7	5	4.2	7	4.3	1	5.0	16	4.0
Total sample	5	2.4	14	3.7	7	4.3	1	5.0	27	3.7

Regarding the auto makers' perception of relationships from the perspective of larger dealers and starting from the aforementioned considerations, we have identified two fundamental research hypotheses:

- 1 Larger dealers feel that auto makers' behaviour is more relaxed in terms of exercised influence strategies (both for coercive initiatives and for noncoercive strategies) than for traditional strategies.
- 2 The roots for this perception of behaviour should be researched within a new framework of analysis that calls for a different evaluation of the structure of the distribution channel, specifically the concepts of decision centralisation, the degree of dependency of the parties and the degree of relationship formalisation.

*Hypothesis 1 The auto maker's more relaxed influences.*

The first hypothesis is based on the assumption that larger dealers, who deal with many brands and suppliers, are more independent. Therefore, auto makers' asymmetrical power is reduced and consequently, its potential influence must be managed more carefully than that of traditional dealers.

The answers of the respondents to the Italian survey, conveniently split in two subcategories (larger dealers and traditional ones), confirm this assumption.

Table 2 shows the average of the absolute values declared by the two groups of respondents in a spectrum of evaluation from 5 (intense) to 1 (not intense).

**Table 2** The perceptions (average of absolute values) of behaviour of auto makers in the dealer's eyes (larger and traditional)

Clusters of dealers	No.	Partner's fairness	Partner's use of coercive strategy	Partner's use of non-coercive strategy
Larger dealers	27	2.53	3.06	2.48
Traditional dealers	218	2.67	3.15	2.70
Average sample	245	2.65	3.14	2.68

Larger dealers feel that auto makers are not fairer in suppliers' network practices than traditional dealers. This means that they believe auto makers differentiate their treatment of dealer categories or do not want to adopt the same communication profile towards all the network members.

In the same manner, larger dealers do not feel the great influence of suppliers in their decisions nor for noncoercive initiatives or coercive strategies. Practically speaking, they feel a wider freedom from suppliers than traditional dealers since the interference of the auto makers, under the forms of communication or specific requests, is less intense.

*Hypothesis 2    The channel structure as an explanation for these perceptions of freedom.*

To verify this assumption, we have decided to deepen the analysis by broadening the scope of the research. We have decided to widen the frame of the research with the Structure-Conduct-Performance (SCO) paradigm (Bain, 1956). Previous researches (Dwyer and Oh, 1987; Dwyer *et al.*, 1987) have already exploited this model to understand the effects of structural determinants on the essence of distribution relationships.

They demonstrated that the effects of structure variables (centralisation, formalisation and participation) have a higher regression value in the presence of strong relationships (retailer cooperatives) than in loosely coupled relationships (such as with independent dealers).

Starting from these assumptions, which were confirmed by the results of the meta-analysis conducted by Geyskens *et al.* (1999) and the results of Molm (1990) on the SCO impacts on social exchange, we investigated more deeply the roots of suppliers' behaviour (fairness, a coercive approach and noncoercive influences) from the dealers' perceptions.

Therefore, if our first analysis (Nadin, 2008a) was directed to broaden the knowledge about the cause-effect nexus among auto maker's conduct and the dealers' responses, this research extension is aimed to investigate the reasons behind the auto maker's conduct.

We sustain the hypothesis that the level of centralisation of decision taking, the degree of relationship formalisation and the degree of dependency of the parties are variables of the structure of the distribution context that directly influence suppliers' conduct and, therefore, the auto makers' behaviour. Since structure variables are supposed to be less tight for larger dealers, we also assume that the correlation between the structure variable (centralisation, formalisation and dependence) and the auto makers' behaviour is more relaxed for this category of operators.

During October 2007 to November 2007, we administered the extension of the questionnaire to the 245 respondents of the first version of the research, which ended in June 2007.

Particularly, we asked them to evaluate six sentences aimed to build the three latent constructs.

Table 3 shows for each of the three latent constructs the correlated sentences, standardised regression weights, squared multiple correlations and value of Cronbach's alpha indexes.

**Table 3** Descriptive statistics of the extension of the Italian survey

<i>Latent construct</i>	<i>Sentence to be evaluated</i>	<i>Standardised regression weights</i>	<i>Squared multiple correlations</i>	<i>Cronbach's <math>\alpha</math></i>
Dependence				0.03
	D39 Presence of business alternatives for the dealer	0.16	0.03	
	D7 Easyness for automaker to replace the dealer in local market	0.30	0.09	
Centralisation				0.32
	D48 Automaker focal point for decision taking as regards local market too	0.31	0.10	
	D10 Automaker takes in consideration the dealer business suggestion	0.61	0.37	
Formalisation				0.28
	D23 Mutual sharing of burden for unforeseen events (not formally covered)	0.85	0.72	
	D44 Relevance of contract and procedures as means of interaction	0.20	0.04	

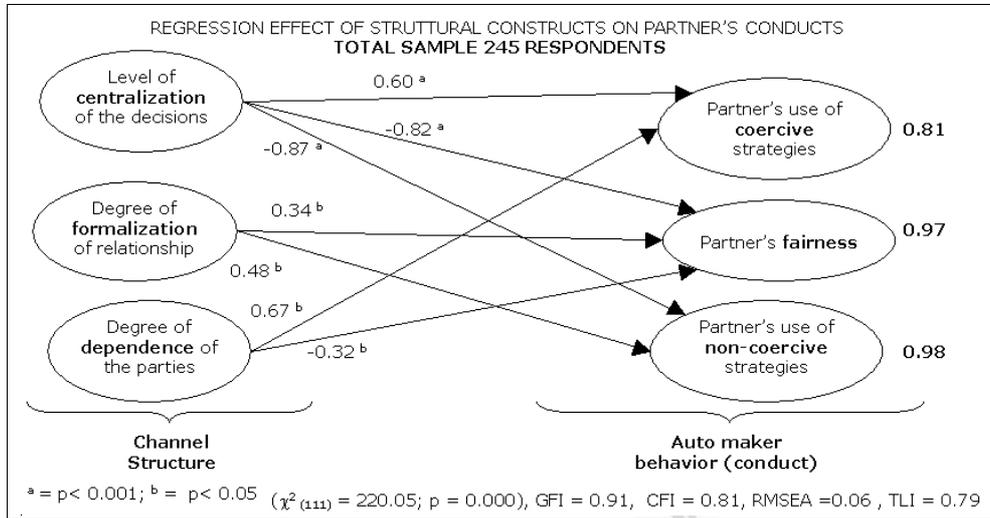
Cronbach's alpha indexes are just above the minimum threshold (George and Mallery, 2003). The exemption is for the 'dependence' latent construct, which does not grant internal validity. Regarding external validity, the scores of the confirmatory factor analysis confirms that the higher coefficient always resides in the proper observed variable and, therefore, the three constructs are heterogeneous among them. Notwithstanding the lack of internal validity for the 'dependence' construct and the poor factor scores, we will try, as an explorative purpose, to find correlations among the structure determinants (centralisation, formalisation and dependence) and the auto makers' conduct (fairness, noncoercive influences and coercive initiatives). A path analysis (Corbetta, 2001) is proposed as a way to outline the potential cause-effect nexus among the mentioned constructs (see Figure 3).

Regarding the model's validation, all the fit indexes reported in Figure 3 let us believe that the measures are reliable, one-dimensional and valid according to the general rule of thumb (Anderson and Gerbing, 1988).

Centralisation is an element that strongly influences auto makers' behaviour, causing a negative regression on the fairness approach and noncoercive strategies. On the opposite side, the sign of regression on coercive influences is significantly negative.

The dependence degree of dealers on auto makers has a great positive influence on the deployment of coercive strategies, while it acts negatively on the suppliers' loyal approach. No relevant regression can be seen between dependence and the exercise of noncoercive influences.

**Figure 3** The cause-effect nexus between structural and behavioural constructs



Note: Entire sample of 245 respondents.

Rapport formalisation has no relevant links with the use of coercive strategies, while it influences positively (though not significantly) the fairness approach of the auto maker.

The definition of processes and rules for managing relationships (formalisation) has a positive regression on the adoption of non-coercive initiatives by the auto makers.

The identified cause-effect regressions helps confirm a great part (higher than 81%) of the variance extracted from the sample used in this research. This is very important as a sign of the model's good fit to the dispersion of the analysed data and, therefore, as a way to interpret the roots of the auto makers' conduct and their behaviour regarding dealer relationship management.

The subsequent hypothesis to be tested is related to the potentially different correlation standings for the typology of dealers. As previously described, larger dealers have a different profile and perception with regard to auto makers' behaviour (see Table 2). Table 4 shows the average of the absolute values of the three structural constructs, both for traditional dealers and larger ones.

**Table 4** The perceptions (average of absolute values) of the channel's structural construct (dependence, centralisation and formalisation) in the dealer's eyes (larger and traditional)

Clusters of dealers	No.	Degree of dependence of the parties	Level of centralisation of the decisions	Degree of formalisation of relationship
Larger dealers	27	2.41	3.87	3.35
Traditional dealers	218	2.76	4.04	3.33
Average sample	245	2.72	4.02	3.33

The feeling of dependence of larger dealers is attenuated since they are used to managing more brands and suppliers and consequently enjoy wider freedom. The decision process related to local problem solving is felt to be nearer to the dealership than the auto makers' headquarters; therefore, centralisation has a lower score than traditional dealers.

Regarding the degree of relationship formalisation, there is no relevant difference in the perception of the two typologies of dealers.

As a further test, we now try to compare the perception of the two typologies of dealers from the view of the path analysis model as well. To accomplish this task, we compare the identified model for the entire sample (see Figure 3) and the model emerging from the dataset composed only of traditional dealers (218 respondents). Composed of 27 items, the sample of larger dealers does not have the minimum statistical threshold to sustain and run the complexity of this model. Therefore, we are compelled to compare the total sample with the one composed of traditional dealers and inductively determine the potential differences with the larger ones.

Table 5 shows the ultimate findings from the comparative analysis.

**Table 5** Score comparison of extracted variance and regression weights between the 'total sample' and 'traditional dealers' only

		<i>Score comparison between 'total sample' and 'traditional dealers' only</i>	
		<i>Entire sample (245 respondents)</i>	<i>Traditional dealers (218 respondents)</i>
Variance extracted	Partner's use of coercive strategies	0.81	0.87
	Partner's fairness	0.97	0.99
	Partner's use of non-coercive strategies	0.98	0.95
Regression weights	Centralisation versus fairness	-0.82	-0.91
	Dependence versus coercive	+0.67	+0.74
	Formalisation versus non-coercive	+0.48	+0.55
	Centralisation versus coercive	+0.60	+0.57
	Centralisation versus non-coercive	-0.87	-0.81
	Dependence versus fairness	-0.32	-0.33
	Formalisation versus fairness	+0.34	+0.04

The first matching is for the output in terms of the variance extracted from the interpretative model run with the two separated datasets (245 cases for the entire sample and 218 cases for the traditional dealers). It emerges that the variance extracted from the model with the 'traditional' subset is six points higher than the complete dataset with regard to the construct 'partner's use of *coercive* strategies' (87% vs. 81%). This is a clear sign that lets us think that coercive behaviour is explained more generally by the traditional dealers than the entire sample; therefore, for larger dealers, the explanation for the coercive approach of the auto makers is only partially covered by the model's structure variables (dependence, centralisation and formalisation).

On the opposite side, we can explain the differences in the extracted variance for the *noncoercive* strategies construct. The model run on the subset of traditional dealers explains a lower quantity of variance; that is, for larger dealers, the structural construct has a wider attitude to explain the auto makers' behaviour regarding noncoercive initiatives. This means that they have the perception that suppliers are more inclined to act with noncoercive initiatives since larger dealers have more freedom and power to refuse or accept and follow the auto makers' guidelines. In these circumstances, strong pressures from the auto makers would only cause the dissatisfaction of larger dealers.

As for the variance extracted from the partners' *fairness* construct, there are only slightly differences in the two subsets, but they are counterintuitive, as registered in the previous points (coercive and noncoercive strategies).

This means that the larger dealers' subset lowers the total variance extracted and, therefore, feel that the identified structural dimensions cover relatively worse the tendency of the suppliers to be loyal and fair to its distribution network. One potential explanation for this finding could be found in the larger dealers' perception of getting 'special and customised' contributions and treatments as a consequence of their particular status as big dealers. This could mean the feeling of disparity in the dealers' treatment.

The bottom panel of Table 5 reports the comparison regarding the regression weights emerging from the model run by the two different subsets.

The regression from centralisation versus the fairness of the auto makers has great differences in the two subsets although negative. This gap can be interpreted by a sentiment of major control and pressure of the traditional dealers with respect to larger dealers that is directly translated in terms of suppliers' increased unfairness.

This is another confirmation that the structural components of the relationships (in this case, centralisation) weigh heavily on the traditional dealers more than the larger ones due to the suppliers' asymmetrical power.

In the same way, the differences of the regression from dependence to coercive strategies and the relation between formalisation and the noncoercive initiatives of the dominant partner can be interpreted. The comparison of the regression among centralisation versus coercive and noncoercive influences can be interpreted in a different manner. The traditional dealers believe that the suppliers' behaviour is less dependent on the channel structure (specifically centralisation). The reason behind this assertion could potentially be found in the awareness of larger dealers of their role in local decision taking. Since they can leverage decision decentralisation at the periphery of the network, they ask for freedom and, therefore, view the auto makers' influence as reduced. The reduced centralisation would affect the perception of an increase of noncoercive influence (as a form of collaboration) linked to lower coercive pressure.

Notwithstanding the subset of larger dealers not having a statistical relevance and consequently, all the proposed elaborations can be accepted in the light of an explorative and preliminary analysis, a different status of the larger dealers with respect to the traditional ones emerges. These considerations can be extended properly and with a major stress and emphasis on dealer groups for business model similarity.

Summing up, we can envisage two major aspects to be taken in consideration. First, the dominant power-dependence model for relationship management can be suitable for traditional dealers since it has being adopted from the genesis of automotive channels of distribution, but it shows the inconsistency or lack of effectiveness of larger dealers or

dealer groups. Secondly, a different status of these latter operators and a different concept of the structure of channel relationships let us think that the parties need more autonomous decision areas.

The latest contributions to the themes of distribution relationship management and development (Lado *et al.*, 2007; Dant *et al.*, 2007; Koza and Dant, 2007) outline the strategic co-existence of competitive tensions in the relationships (let us call them 'power drivers') and the openness collaboration from collaboration as stated by the 'trust-resource' theory.

Taken as a whole, all these considerations give us the stimulus to rethink the way the auto makers and dealers, especially larger ones or dealer groups, should interact to optimise mutual benefits and boost channel equity.

## 5 How to manage relationships with larger dealers and dealer groups

### 5.1 Defining cooperation within marketing channels

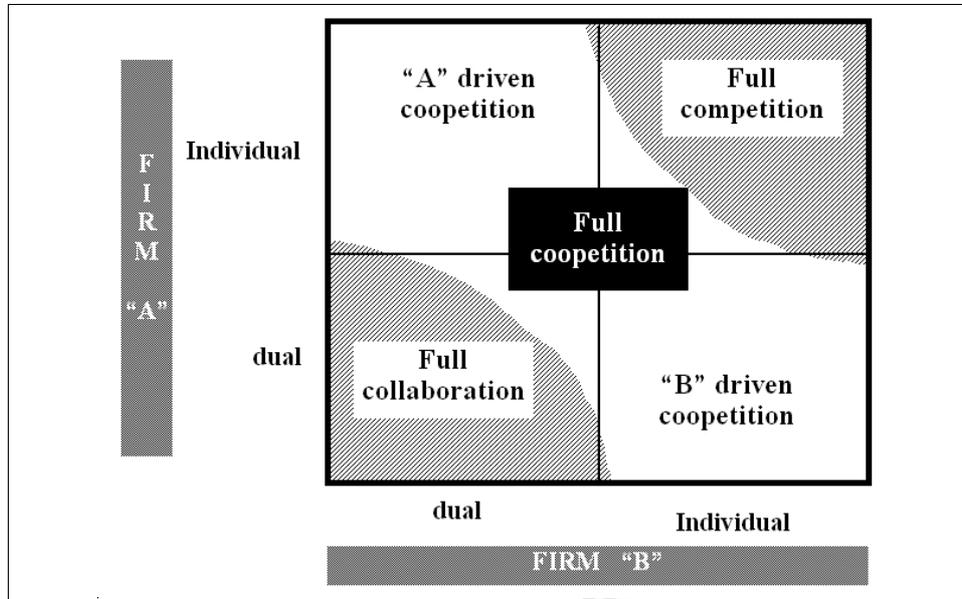
As we have seen, the nature and essence of relationships with larger dealers and dealer groups is intrinsically different with respect to relationships with traditional ones being less unbalanced in terms of the auto makers' power and control. Interaction with this kind of operators should be revisited to widen the spectrum of communication and interact creatively in a dual way with the aim to reinforce collaboration.

Since the businesses of larger dealers and dealer groups are essentially characterised by a multibrand model opened to heterogeneous relationships with many operators, we have to expect that the content of each relationship would involve both collaboration initiatives and potentially confronting and colliding ones, as stated by Ritter and Ford (2004).

In this scenario, the auto makers should act not only in search of collaborations with dealers, but should manage potential competitive initiatives arising from the dealers' interests (*i.e.*, other brands). Meanwhile, the auto makers have to try to force operators to enlarge their vision or strategy to evaluate and potentially accept new insights and programmes for the benefit of the brand. This means that relationships are increasingly becoming a compromise between the choices aiming to intensify collaboration and prevent or manage confrontation and competition. In a *latu sensu* relationship, management should embrace the cooperation paradigm (cooperation combined with competition) postulated by Brandenburger and Nalebuff (1996). In cooperation, both parties recognise their interdependence (Luo, 2005; Lado *et al.*, 1997) and feel that they cannot act in isolation but, at the same time, they understand that they rarely share completely congruent interests in all aspects or at all times. As defined by Bengtsson and Kock (2000), there exist different types of cooperative relationship equilibria among involved parties. In a dyadic relationship, like the one we depict here, there is one important feature to ascribe to cooperation. It is crucial to understand the position and role played by each party involved in the relationship.

Figure 4 shows the positions that can be taken by the two parties in a cooperative relationship.

**Figure 4** Relationship positioning of the two parties in a cooperative setting



Leaving aside the dotted-line areas of full collaboration and full competition, coopetition can be originated by three typical situations: competition driven by one part (*i.e.*, the channel leader), by the counterpart (*i.e.*, the dealer group) and a full and coparticipated competition where the two parties are able to balance between individual and dual targets.

The asymmetrical power of the auto makers is the matrix for a competition strategy of the first type. That is, the auto makers induce the dealers to participate collaboratively in relationships but, at the same time, impose strongly individual targets. In this perspective, cooperation is unbalanced despite distribution relationships ideally being the natural domain for collaboration and full creative cooperation.

On the opposite side, there is no significant experience of cooperation driven by dealers (second chance of competition depicted in Figure 4). The cases wherein the dealers are able to impose to their suppliers their own individual targets are confined to discrete occasions and, generally speaking, do not constitute a systematic approach. Big automotive dealer groups can sometimes drive relationships and impose conditions on the auto makers with whom they have minor franchise contracts. In these situations, distribution operators, thanks to their asymmetrical economic power, are able to impose on minor suppliers the ‘take it or leave it’ condition for many initiatives such as premises improvement, the resources involved in the relationship, *etc.*

The third type of coopetition is the one that reconciles a balanced equilibrium between the individual and dual targets pursued by the auto makers and the dealers.

We call this kind of relationship ‘full coopetition’ since the parties recognise the need to cooperate but, at the same time, feel the need to pursue individual trajectories of evolution that are managed in a proper way, avoiding open, fierce competition.

If the first type of coopetition (principally driven by the auto makers’ targets and decisions) is the most suitable for the relationship management of traditional dealers, we predict a failure of the enforcement of this model for large retailers and dealer groups.

As previously seen (Table 5), the structural elements of relationships (centralisation, dependence and formalisation) have a greater regression effect on the fair and noncoercive auto makers' behaviour towards larger dealers than traditional ones. This means that the cooptation approach of suppliers should be more inclined to rethink the burden of their individual targets in relationships and at least be open to accepting the individual targets of multifranchise retailers. The mediating model that we suggest for relationships with larger dealers and dealer groups is labelled 'full cooptation', which emphasises an increased equilibrium of the parties in proposing or imposing individual goals in relationships.

### 5.2 *Cooptation as way to reinterpret relationships*

According to Lado *et al.* (2006), full cooptation, seen as the co-existence of trust resources and opportunism determinants that simultaneously operate in the relationship, should be seen as an 'ordinary-language' rather than a 'logical' paradox in living and prospering channel relationships. Traditional relationships with automotive dealers have always been settled on a dual base: confrontation and competition on one side and collaboration and trust on the other. Among many studies conducted on this subject, the research run in the Italian context (Nadin, 2008a) showed the co-existence of the two antithetical approaches. This research, which is also in accordance with Yilmaz *et al.*'s (2005) findings, shows that asymmetrical power induces the auto makers to read the relationship framework as a way to impose on traditional dealers a confrontation strategy that asks for blind trust in their managerial approach. Therefore, the auto makers are used to imposing rules, but want to have open trust from dealers.

The renewed climate of relationships among the auto makers and larger dealers or dealer groups opens up new scenarios made by the co-existence of opposite trajectories such as coerce and concede, confront and conform, create and consolidate (Ritter and Ford, 2004).

The parties (especially suppliers) have to understand how to exploit at best the potentiality of relationships with larger dealers and dealer groups and this should be done by balancing, in a proactive way, the opposite forces of cooperation and competition. According to the findings of Lado *et al.* (2007), moderate levels of both trust (quest for mutual cooperation) and opportunism (competition breakaway from the relationship) tend to convey mixed signals to the exchange parties and create an atmosphere of suspicion and confusion regarding their trading partnerships and, hence, must be avoided whenever possible. Therefore, it is not only a problem of trust creation in the absence of conflict, which can be generated in long-term apathy as stated by Eisenhardt *et al.* (1997). The real issue is stimulating the dynamic evolution of relationships, which requires the existence of trust resources, but also a stimulus that could require edge propositions to the counterpart and healthy competitive initiatives to revitalise potentially stagnant relationships.

In this perspective, collaborative interorganisational communication (Mohr *et al.*, 1996) assumes a central role as mediating mechanism among the potential antithetical trajectories originated by the two parties.

The cooptative perspective stems from the acknowledgement that within interfirm interdependence, both the processes of value creation and value sharing take place, giving rise to a partially convergent interest (and goal) structure where both competitive and cooperative issues are simultaneously present and strictly interconnected (Dagnino and

Padula, 2002). Therefore, the parties have to reinterpret classical and standardised relationships as a game structure where actors interact on the basis of partially convergent, overlapping interests to put in place a ‘positive-sum game structure’ aimed to generate mutual and composite ‘quasi-rents’ (Padula and Dagnino, 2007).

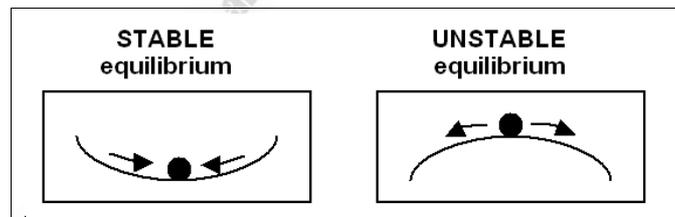
Far from being antithetical, opportunism and trust are, therefore, behavioural variables that generally co-exist in the same context with various degrees and should be activated by the parties to develop proactively, but in a balanced way, relationships both for suppliers and dealers.

### 5.3 Working with an unstable equilibrium

The equilibrium of these antithetical forces (coerce vs. concede, collaboration vs. competition) must be revised continually since the exogenous and endogenous variables of relationships push the parties to foresee new individual targets. According to Padula and Dagnino (2007), the more changing and unstable the environmental conditions, the higher the intrusion of competitive issues in a cooperative relationship and, therefore, the higher the need to renovate the essence of the relationships and interaction scheme based on the mix of ‘confront’ and ‘coerce’ strategies.

In the automotive market scenario, characterised by the instability and saturation of the product life cycle, the parties (auto makers and multibrand dealers) act to evaluate every market potentiality and envisage the best way to take advantage of it. In this context, a fixed and frozen relationship is not effective and the balance between the trust determinants and opportunistic initiatives should be in continuous transition. As depicted in the right side of Figure 5, in the presence of an instable equilibrium, the parties have to work tirelessly to find a new balance assuming that the frame of the relationship is always and definitely changing.

**Figure 5** Stable and unstable equilibrium



Equilibrium in our case is the balance of two antithetical types of forces (cooperate or concede and compete or coerce).

In physics, one aspect that must be taken is the position of the centre of mass in the equilibrium, the centre of gravity of the relationships in this case. The nearer the centre of gravity is to the auto maker, the more stable the equilibrium is (right side of Figure 5). The farther it is from the channel leader (auto maker), the more the relationships and their equilibrium can be considered unstable. Relationships with traditional dealers are the most stable, since the auto makers benefit from an undoubted asymmetrical power which annuls every exogenous force interfering with the relationships. The underlying corollary to this thesis is that the ability of the channel leader to stabilise relationships as a result of their critical mass can be counterproductive with larger dealers or dealer groups since

they need flexibility and freedom to evaluate and exploit the opportunities given by markets. Therefore, the framework of the relationships with this category of dealers ask the auto makers to learn how to cope with diversity and unstable relationship conditions.

According to Padula and Dagnino (2007), three main steps should be followed in order to design a fruitful cooperative strategy in a condition of unstable relationship equilibrium: strategic interaction, selection and organisational processes.

The *strategic interaction process* means having the same vision about interaction with external operators such as distributors or dealers. According to Prahalad and Bettis (1986), this is the firm's 'dominant logic', which is the mental representation of the world and the key factors which enable high mutual performances for both parties. It is crucial for firms to share the same vision with their partners to have complementarities in the subsequent proceedings.

Since an instable equilibrium imposes that the parties look for new relationship conditions which can mean opening new resources that are offered by existing operators or new ones, the ability to recognise the value of new external knowledge and, therefore, manage *selection processes* becomes crucial.

Finally, the *organisational process* means assimilating the knowledge of the external partner and aligning it to the rest of the company in a fruitful way for both parties.

## 6 Conclusion and open questions

Reinterpreting the approach to relationship management entails that the auto makers have to deeply rethink the way they organise their businesses. Assuming the deployment of the cooperation model at least for larger dealers and dealer groups minimally requires the adoption of two measures:

- 1 rethinking the application of generalised retail standards and starting to recognise the centrality of a one-to-one marketing approach towards the distribution network
- 2 renovating the organisation in charge to create, develop and sustain each distribution relationship.

Since the beginning of the new century, auto makers have been adopting a strategy directed towards getting uniformity in every point of sales belonging to the network. This approach, aimed towards granting to customers a better and standardised service from authorised dealers and reinforcing the brand image on the points of sale, could be the cause of the lack of an open and direct relationship with dealers. Accepting the effectiveness of the standardisation of the retail network image in customers' eyes, the extension of the adoption of a similar approach to the relationships themselves (intended to be the process of setting local goals and defining strategies) can bring about a poor result in terms of the lack of fit with the specific culture existing in each dealership. Although franchise contracts create formal bonds between auto makers and dealerships, the latter is always a privately owned company managed by an entrepreneur with a proper view of business and a certain attitude toward risk taking, investments, decision approaches, *etc.* This means that a standardised approach towards dealerships could be less fruitful than a customised approach aimed towards exploiting the essence of the relationship's potentiality.

This research and the cluster analysis included in the aforementioned contribution (Nadin, 2008b) confirmed the centrality, starting from the dealers' perception, of a more customised approach in dealer relationship management.

Assuming the effectiveness of a customised dealer approach, the organisation put in charge to develop the distribution network should be consequently revisited to answer to a more flexible policy.

The auto makers should embrace a relationship portfolio strategy approach where, aside from the classic 'area manager' responsibilities, there could be support in line with a team skilled in business development and project management to activate a personalised two-way communication with dealers aimed towards optimising each relation.

Along with these suggestions, this paper opened up to a new potential corollary regarding the life cycle of the relationships with dealers. The flexibility of the approach to larger dealers and dealer groups would encourage an increase in the mobility ratio in distribution networks both for the auto makers and multibrand dealers.

Stability will not be granted anymore by formal contracts, but by mutual trust and the parties' convergent business vision.

Descending from this corollary, we should expect that the normative frame should be shaped differently from the past.

One direction for the evolution of the BER foreseen for 2010 should take into consideration the possibilities to open the development of new formats of distribution such as distribution chains or the cooperative aggregations of dealers. Thanks to their dimensions in terms of car sold, these new formats could confront easily and more intensively with automakers that the traditional ones do.

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