



Customer Preferences for existing and potential Sales and Servicing Alternatives in Automotive Distribution

Undertaken on behalf of the

European Commission
Competition Directorate-General

by

Dr. Lademann & Partner
Gesellschaft für Unternehmens-
und Kommunalberatung mbH

Hamburg, 20th December 2001



Consumer preferences for existing and potential sales and servicing alternatives in automotive distribution of new cars

Final Report

Project number	01B480
Edition number	1
Principle	European Commission Competition Directorate-General DG IV
Contractor	Dr. Lademann & Partner Gesellschaft für Unternehmens- und Kommunalberatung mbH Friedrich-Ebert-Damm 311 22159 Hamburg Telephone: 0 40 / 64 55 77 - 0 Fax: 0 40 / 64 55 77 – 33 info@dr-lademann-partner.de www.dr-lademann-partner.de
Overall responsibility	Dr. Rainer P. Lademann
Project management	Dr. Rainer P. Lademann
With the help of	Dipl.-Kfm. Uwe Seidel Kai Petersen

Disclaimer

"The views expressed are purely those of the writer and may not in any circumstances be regarded as stating an official position of the European Commission."



Table of Contents

1	Overview and Summary	5
2	Introduction	11
2.1	The Task and the Problem.....	11
2.2	The Basis of the Study.....	12
2.3	Methodology.....	13
3	The Problem and the Research Concept	14
3.1	The research requirement for sales and servicing from the viewpoint of the consumer.....	14
3.1.1	Distribution channels relevant to the research.....	14
3.1.2	Workshop/servicing alternatives relevant to the study.....	16
3.2	Link between sales and servicing relevant to the study.....	16
3.3	Choice of the purchase and servicing alternatives as a question of preference.....	17
3.3.1	Preliminary remarks.....	17
3.3.2	Adaptive Conjoint Analysis (ACA) – an overview.....	17
3.3.3	Structure of a survey using Adaptive Conjoint-Analysis (ACA).....	19
3.4	Population, random testing and the interviewee.....	20
3.5	Questionnaire.....	22
3.5.1	Basic concept.....	22
3.5.2	Conjoint measurement part: Attributes and attribute levels.....	23
3.6	Conducting the survey.....	24
4	Presentation and analysis of the survey findings	25
4.1	Demographic features of the random sample.....	25
4.2	Purchasing and workshop behaviour.....	29
4.3	Basic evaluation of the Conjoint part of the survey.....	33
4.3.1	The importance of the surveyed sales and servicing areas.....	33
4.3.1.1	Overall and country-specific.....	33
4.3.1.2	The influence of demographic factors on the level of importance.....	35
4.3.2	Part worth of individual sales and servicing elements.....	40
4.3.2.1	Overall and country-specific.....	40
4.3.2.2	The influence of demographic factors on the part worth.....	46



5	Market simulation for various sales and servicing combinations	52
5.1	Preliminary remarks	52
5.2	Market simulation for the current situation	52
5.3	The market opportunities for multi-brand dealers.....	54
5.3.1	Considerations	54
5.3.2	Estimate of market shares	55
5.4	Market opportunities for manufacturer-independent Internet dealers and car-sector-unrelated business	56
5.4.1	Considerations	56
5.4.2	Estimate of market shares	56
5.5	Market opportunities for sales channels if sales and servicing are separated	57
5.5.1	Considerations	57
5.5.2	Estimate of market shares	58
5.6	Market opportunities for an open distribution system.....	59
5.6.1	Considerations	59
5.6.2	Estimate of market shares	59
6	Interpretation of the results in light of the BER.....	61
6.1	Competition in new car sales	61
6.2	Market structure dynamics from the perspective of consumer preferences.....	62
6.3	Consumer expectations and consumer policy regarding new car purchases	63
6.4	Findings compared with selected studies.....	65
	ANNEXE	69
	Questionnaire	69
	Selected Charts	73



1 Overview and Summary

The Problem and the Methodology

The study, commissioned by the European Commission (the EU Commission) researches consumer preferences for existing and potential sales and servicing alternatives for new automobiles in the European Union. The background for the study is the block exemption regulation No 1475/95 (BER) which expires in September 2002. This regulation releases the automotive industry from the prohibition set out in Article 81 (1) EC treaty, and enables the industry to bundle the distribution and after-sales servicing for new cars through independent car dealers using selective and exclusive contracts. In its report on the evaluation of the BER¹ the Commission found that there were problems in the application of this regulation in certain areas (in particular, the hindrance of parallel imports and retail price maintenance). The exemption of selective and exclusive sales contracts under the provisions set out in Article 81 (3) EC treaty requires, among other things, that consumers must receive an appropriate share of the resulting benefit.

The aim of this study is to research the consumers' acceptance of existing and potential sales and servicing alternatives. For this purpose, consumer surveys were carried out in Germany (D), France (F), the Netherlands (NL), Spain (E) and in the United Kingdom (UK), which ensured a certain balance with respect to geography as well as the size of the countries. In each of these countries approximately 100 consumers were selected on a simple random basis and were interviewed about their preferences regarding the purchase of a car and servicing. Despite the relatively small random sample the precision of the forecast using the Adaptive Conjoint Analysis (ACA) method is relatively high. The standard variation in the forecasting of market shares in the five countries in total lies between plus/minus 1.0 to 1.5% and for the individual countries between plus/minus 1.5 and 2.3% (D) up to 2.7 and 3.9% (F).

The study was conducted using the so-called Conjoint Measurement Approach (Adaptive Conjoint Analysis, ACA). As opposed to conventional market research methods ACA is geared towards facing the consumer with realistic decision-making situations. This method allows one not only to assess the ranking of benefits for the various sales and servicing alternatives, but also to identify which characteristics lead to these preferences. For this purpose the respective part worth of the

- sales alternatives: direct purchase from manufacturer, franchise dealer, dealer who carries different brands, car-sector-unrelated dealer, re-importer and Internet dealer and the

¹ This report from 15.11.2000 can be found on the Competition Directorate-General's web-site: http://europa.eu.int/comm/competition/car_sector/distribution.../report.



- servicing alternatives: branch of a manufacturer or manufacturer-owned dealership, contractual/authorised workshop, independent workshop concentrating on one brand, independent workshop catering for several brands, fast fit chain, petrol station and no servicing

was investigated. At the same time the utility effects of the following marketing and competitive instruments (each at different attribute levels), as used by the various forms of distribution studied, were investigated:

- Price/Discounts
- Advice from salespeople
- Distance from servicing provider
- Possible test drive
- Range of equipment available for selection
- Personal contact to dealer
- Delivery time

The investigation of the part worth of these marketing and competitive instruments makes it possible to make predictions about potential distribution and servicing alternatives. For each sales model the benefit dimensions must be varied in the expected direction (e.g. to answer the question of which market opportunities the independent Internet dealer would have, assuming he offers no personal advice, no test drives and no after-sales servicing, but does offer a better price than other sales forms). These market simulations shed light on the market opportunities of new distribution and servicing combinations based on the consumers' preferences, and show which changes this would lead to in the market structure.

Besides determining their benefit structures, the consumers were also asked about their brand and dealer loyalty, where they purchased or plan to purchase their new car, which servicing alternative they currently use the most, and also their demographic characteristics. The latter was aimed at testing how representative the sample was of the population from which it was drawn.²

Importance of the marketing and competitive instruments studied

The survey showed that the various features investigated were of similar importance to the consumers in the five countries chosen. The type of after-sales servicing alternative proved to be the most important feature, followed by advice from a salesperson and the type of sales alternative. Then came, in order of importance, the ability to test drive the vehicle, the distance to the workshop, the delivery time and the freedom to select equipment.

² The validation of the random sample shows that it represents the characteristics of the population from which it is drawn as regards the essential structural characteristics of the consumers interviewed and their buying and servicing behaviour. It is also noticeable that the consumer benefits are only slightly influenced by demographic differences.



The high value placed on after-sales servicing, as well as the importance of personal advice, shows that, when a new car is being purchased, the buying phase is already overshadowed by the expectations placed on the utilisation phase. Therefore after-sales servicing is already of utmost importance at the time of purchase.

It is also worth noting that price and personal contact with the dealer are seen to be of lesser importance in comparison to the other features. This initially surprising statement becomes plausible, however, when looking at the research method: faced with the question of whether a high discount on the purchase of a new car is more important than, for example, doing without expert advice, a test drive or an authorised workshop, the consumers always choose these essential features of quality rather than going for the price reduction.

Price levels and personal contact with the dealer only gain in importance when the quality-oriented expectations of the buying process and the servicing are absolutely assured. Conversely this finding shows that the price (or discount given) or personal contact are hardly suitable instruments for giving a supplier a competitive edge, unless he also offers the highly valued quality features. The comparatively small competitive value of price is also due to the price transparency of the market. Because of the transparency of the market, the high mobility of the consumers, and their limited brand and workshop loyalty, car dealers tend to offer the same discounts as their competitors in order to bind customers to them. In this way attempts are made to compete with other distributors and after-sales servicing providers.



Brand and Dealer Loyalty

From the loyalty of consumers to a particular brand or dealer and his workshop, conclusions can be drawn about the intensity of the competition within and between brands. The survey has shown that approximately a third of the consumers buying a new car

- intend to remain loyal to the dealer or the workshop and therefore also to the brand;
- intend to remain loyal to the brand but are prepared to change workshops;
- are neither loyal to a brand nor to a dealer or workshop, but rather look for the best offer on the market for a particular type of car.

From the dealer's (or brand's) standpoint, this means that at least two (one) thirds of potential buyers of a new car will choose among different dealers (and brands). This possible loss of customers forces the dealers to act competitively. This also applies to the third (of consumers) which is fundamentally loyal to the dealer, as their loyalty cannot be secured by qualitatively insufficient market efforts.

Part worth of the competitive parameters

Regarding the part worth of the individual attribute levels of the competitive instruments the situation in the countries studied is certainly comparable. Even though the part worth of individual attribute levels differs from country to country, the benefit structure is similar in all countries. Although the level of evaluation of a benefit may be different, its direction (positive or negative benefit) is in most cases identical. The survey showed the following results:

- In the case of the sales alternatives (forms of distribution), the franchise dealer is assigned the highest (part) worth ahead of the direct purchase from the manufacturer, followed by the authorised multi-brand dealer. However, the multi-brand dealer's worth is evaluated about half as highly. Other sales alternatives (i.e. the re-importer, the non-sector retailer and the independent Internet dealer) have a negative part worth.
- Among the after-sales servicing alternatives (workshop forms) the franchise dealer also has the highest part worth. The workshop specialising in one brand and the unspecialised, free workshop were also assigned a positive part worth. Fast-fit repair chains and service stations were evaluated negatively, but as expected they are evaluated much higher than a complete lack of servicing.
- Whereas the benefit of a discount with the purchase of a new car is obvious and rises with additional reductions from the list price, consumers evaluate the attribute of a fully-equipped new car and free choice of equipment with a similarly high part worth. In contrast, having only the basic equipment has a negative part worth in all countries.
- The tested attribute levels for delivery time show similar results. Short-term deliveries within one week or medium delivery times of "several weeks" have a practically identical positive part worth. Delivery times of several months, on the other hand, were evaluated negatively.
- The existence of a close relationship between the dealer and the customer had a very small but nonetheless positive part worth.



- The ability to test drive only current models was given nearly the same value access to a test drive for the entire range of models. A total lack of test drive facilities was assessed as having a strongly negative part worth.
- The evaluation of the alternatives of personal advice has a similar structure. Thorough advice by a salesperson had only a slightly higher part worth than basic advice. This result may reflect the fact that many customers are very well informed, and that their need for advice is consequently lower. However, if the salesperson gives no advice, this has a negative part worth.
- The distance to a workshop also strongly influences consumer benefits. Nevertheless, the part worth of workshop nearby which can be reached within 15 minutes of driving is only slightly higher than those of an alternative that lies 30 minutes away by car. These nearly equal evaluations are in contrast with a negative part worth of service points that can be reached in 30 minutes or more.

In summary it can be said that, based on an analysis of the preferences, the part worth for the franchise dealer and the authorised workshop is the highest among all the other sales and servicing alternatives. The structure of preferences clearly shows that the part worth is higher when the influence of the manufacturer during the purchase and with regard to the specific brand is guaranteed. Conversely, from the consumer's point of view the benefit is markedly lower if the sales and servicing alternatives are separated from the manufacturer and are also not exclusive with regard to brand. This result also explains the importance that the consumer attaches to the after-sales servicing and the utilisation phase at the time of purchasing a new car. From the consumer's standpoint, a brand-exclusive network of dealers and workshops reflects his preferences more strongly than all the other sales and servicing alternatives.

Market simulation

The next question is now what market opportunities possible sales and servicing alternatives have, based on these preference structures. From the consumer survey the present market structure for new car sales is estimated to have a share of approx. 84% for franchise dealers, about 10% for direct sales by manufacturers and just below 6% for re-importers. Thus the currently existing basic market structure in Europe is accurately portrayed by the study.

The market simulation, carried out using the conjoint approach led to the following results:

- Based on the preference structures an average market potential of about 8% can be expected for multi-brand dealers, independent of the manufacturers. In France the potential amounts to almost 15%.
- In all the analysed competition scenarios, the re-importers, manufacturer-independent Internet dealers and car-sector-unrelated retailers have only small market opportunities, all together about 8%. This estimate could lead to more optimistic results, if the new sales alternatives each offered qualified, manufacturer-specialised after-sales servicing, qualified personal advice and test drives.
- The more open the distribution and servicing system is to new forms of sales and servicing, the more chances manufacturers have to significantly increase direct sales. Depending on the competitive situation, the share of direct sales could grow to about 40%.



Conclusions

Overall, the results of the consumer survey show that new distribution channels will in general only be accepted in connection with a minimum of quality-related services. New car retailers who did not also provide brand-specific servicing facilities, test drives, a choice of equipment (at least within limits), advice, and integrated customer service, would be likely to have only a very limited success on the market. The preference structure shows that a lack of any or all of these advantages cannot be countered by price reductions.

In addition the survey made clear that brand-exclusive distribution and after-sales servicing concepts are preferred. The skills possessed by dealers which sell and possibly maintain different brands are less valuable to most consumers than those possessed by dealers that specialise in one brand and have a close connection to the manufacturer, giving these brand-specialist dealers a competitive advantage. In our opinion, this is connected to the present demand for qualified sales and servicing offers on the basis of which consumer expectations of safety, reliability and durability can be better met by brand exclusivity.

Thus, the current market structures in new car sales and the brand-exclusive linking of sales and servicing are in line with the preferences of most consumers. Left to consumer preferences alone, the importance of re-importers will only increase slightly, and this in spite of the still inadequate degree of price convergence within the European Union. The same applies to new car sales by manufacturer-independent Internet suppliers. Younger buyers of new cars – contrary to what one might expect – prefer the franchise dealers more than older consumers do, because for a majority of them buying a new car involves taking a high risk and at the same time they have less buying experience. Only the multi-brand dealers – assuming they offer brand-specific after-sales servicing – appear to have some chances of success on the market. A growing number of possible new sales alternatives would however mainly improve the chances for manufacturers to increase their direct sales.



2 Introduction

2.1 The Task and the Problem

On 27th July 2001 the EU Commission charged Dr. Lademann & Partner, on the basis of an offer made on 13th July 2001, with the research of consumer preferences for existing and potential sales and servicing alternatives in the car industry. The motivation for the research is the block exemption regulation (BER) 1475/95, which expires in September 2002 and is currently under review. Article 81, paragraph 3 EC treaty exempts the automotive industry from the ban set out under Article 81, paragraph 1, EC to organise its sales network for the sale of new cars on the basis of selective and exclusive distribution contracts.

Under the auspices of the BER, the distribution structures existing in the European Union have in practice developed comparable basic features, and are characterised by a largely manufacturer-exclusive network of franchise dealers with attached workshops. These are contractually obliged to foster the sales and brand objectives of the manufacturer in a defined contractual area.³ One reason given for these restrictions on competition is that open sales systems can neither assure the necessary warranty services and recall measures, nor carry out servicing and repair on a standardised basis, and thus fail to ensure the reliability of a technically complex product such as a car. Also, the franchise dealer systems enable the maintenance of an ubiquitous network of sales and servicing providers, and thus ensure that these are within easy reach for consumers.

The close relationship, based on exclusivity and selectivity, between sales and after-sales servicing (service/workshop)⁴ has had the effect that so far virtually no other form of trade exists in the area of new car purchases other than the manufacturer-tied contract dealer, except for some manufacturers' own direct sales systems.⁵ In view of the continued marked price differences in prices within Europe that go beyond the price differentials generated by the various fiscal systems, the subordinate market position taken by the

³ Although possible under EU law, no significant multi-brand distribution (meaning different brands manufactured by different companies) has developed. Actually, most dealers – aside from sales structures for exclusive brands – sell only one brand or the brands of one company.

⁴ Cf. European Commission, Publ., Report on the evaluation of Regulation (EC) No 1475/95 on the application of Article 85(3) of the Treaty to certain categories of motor vehicle distribution and servicing agreements, Brussels 2000, Rn 244/p.86, in the following [EU/1475/95](#), also Autopolis, Publ., The natural link between Sales and Service, 2000, p.14ff,p.58f., in the following [Autopolis/2000](#).

⁵ Sales by car-sector-unrelated retailers are limited to isolated cases, such as the recent selling of Daewoo cars by the self-service department store chain Marktkauf (AVA, an associated company of the Edeka group), Cf. o.V. Edekas neue Offensive, ab Montag: Daewoo-Autos bei Marktkauf, in Hamburger Abendblatt 26./27.5.01, p. 4, in the following [o.V./2001](#), or the selling of Fiat Punto by Edeka in Offenburg, Cf. Büschemann, K.-H., Edeka darf weiter Autos verkaufen, in Süddeutscher Zeitung of 8.5.01, p.19, in the following [Büschemann/2001](#).



re-importers is more an indication of the existing competitive restrictions and not a quasi natural relationship of sales and service.⁶ Also individual proceedings that the EU Commission has initiated against car manufacturers for having violated Article 81, (1) EC treaty (in particular regarding the discrimination of foreign consumers or intervention on the part of the manufacturer in the dealer's pricing policy), underscore that the possible advantages of the agreements restricting competition do not automatically benefit the consumer.⁷

With this background it is doubtful, whether the consumer participates in the advantages of the currently customary link-up of contract and servicing, as intended in Article 81, (3) EC treaty. The objective of the study is to sound out the acceptance of these different sales and servicing alternatives by the consumer. At the same time possible success of new sales channels from the viewpoint of the consumer preferences will be assessed.

2.2 The Basis of the Study

The study is based on consumer surveys undertaken in five European countries. These were conducted by Dr. Lademann & Partner in consultation with the market research institute commissioned with its execution, Valid Marketing Research Marktforschung GmbH in Bielefeld. After due consultation with the EU Commission the following countries were chosen

- Germany (D),
- France (F),
- Great Britain (UK),

⁶ Degryse, H./Verboven, F./Leuven, K.U. and C.E.P.R., Car Price Differentials in the European Union: An Economic Analysis - An Investigation for the Competition Directorate-General of the European Commission, Centre for Economic Policy Research, London, November 2000, http://europa.eu.int/comm/competition/car_sector/distribution/report.../studies, in the following Degryse et al/2000.

⁷ For example, various proceedings (leading to a decision with fine) for hindering direct purchases by consumers abroad (Volkswagen, hindering direct purchases by consumers abroad (Volkswagen, decision from 28.1.1998, ABI. L 124, 25.4.1998; Opel Nederland/General Motors Nederland, decision from 20.9.2000, Abl L59, 28.2.2001; Volkswagen, decision from 29.6.2001, ABI L 262, 2.10.2001; Mercedes-Benz, decision from 10.10.2001, not yet published).



- The Netherlands (NL) and
- Spain (E)

This selection ensures that the three largest European market segments for new car purchases (Germany, France, Great Britain), one that is not so large (Spain) as well as a medium-sized country (The Netherlands) are covered. Furthermore, it provides for a representative geographical coverage of Southern and Central Europe.⁸ In all other respects the study was also based on:⁹

- European consumer and automotive organisations¹⁰ were asked to comment on their estimation of consumer preferences and possible structural changes in automotive distribution and servicing.
- During the preparation of the survey a number of already existing empirical studies were also consulted (cf. Sources). Moreover, the European car industry via the European carmakers' association (ACEA), and the German carmaker's association (VDA), made available to Dr. Lademann & Partner several sector studies for comparative purposes.
- Additionally, relevant publications on recommended reading by German academics concerned with the automotive industry were consulted.¹¹

2.3 Methodology

The report initially explains the structure and methodology of the consumer survey conducted. Then the findings of the survey are represented descriptively before being followed by an analysis of selected variables and the forecast of market success for new distribution forms. As a conclusion, the findings of market analysis are being used to assess competition in sales and servicing and to show possible solutions for the link between sales and workshop from the viewpoint of the consumer.

⁸ The Scandinavian countries represent a special case in several respects that could not be taken into account for a general study. Denmark is not comparable with the other countries due to the extreme surtaxes on buying a new car. In Sweden and Norway the sales structures also deviate markedly from the basic relationships in the rest of Europe as they have a greater component of multi-brand service centres due to the very low conurbation density.

⁹ We thank all institutions and persons approached by us for their wholehearted, prompt and constructive support during the course of this project.

¹⁰ ADAC Allgemeiner Deutscher Automobil Club, BEUC Bureau Européen des Unions de Consommateurs, ATI Alliance Internationale de Tourisme, FIA Fédération Internationale de l'Automobile, Verbraucherzentrale Bundesverband (formerly AgV).

¹¹ CAR Center of Automotive Research/Prof. Dr. Ferdinand Dudenhöfer, FAW Forschungsstelle Automobilwirtschaft/Prof. Dr. Wolfgang Meinig, IFA Institut für Automobilwirtschaft/Prof. Dr. Willi Diez,



3 The Problem and the Research Concept

3.1 The research requirement for sales and servicing from the viewpoint of the consumer

3.1.1 Distribution channels relevant to the research

The distribution systems in new car sales in Europe depend largely on a basic set of structurally comparable combinations, even if there are sometimes great differences in the importance of the individual sales channels from manufacturer to manufacturer.¹²

- New cars are mainly sold via indirect sales systems that have a single or two-tier structure involving franchise dealers. Single-tier sales systems prevail predominantly among dealers of imported brands and those who sell vehicles in niche product segments, whereas the “volume manufacturer” tends to prefer a two-tier system with main and sub-dealers. The various forms¹³ – e.g. between the traditional car showroom, car dealer groups (branches), the satellite concept (car showroom with a central sales system and decentralised workshop network without sales) or depending on the size of the car showroom – that franchise dealerships may take is not covered by the survey.
- Furthermore, partial (i.e. not total coverage) direct sales concepts run by individual manufacturers are considered, in particular in the premium segment. These direct sales concepts are operated via the manufacturer’s own branches in conjunction with sales intermediaries. In the following these are included under franchise dealers.
- Additionally the above-mentioned price differentials have produced agents or re-importers who generally buy vehicles from stock with corresponding price discounts for immediate re-export.
- A new car sale independent of the manufacturer or his dealer network via the Internet currently only exists in the Internet offers of re-importers. Otherwise an independent sale of new cars alone via the Internet as a result of the BER still remains virtually excluded. If new cars are sold at all via the Internet, this is usually effected via the manufacturer or the dealer network.¹⁴
- Multi-brand dealers selling brands of competing manufacturers, in principle permissible under Regulation 1475/95, are also of little relevance to consumers. This is mostly due to the fact that, under Article 3, Section 1 No. 3 (EC), the BER permits the manufacturer a strict separation of the sales according to brand (company, management, showroom) and in this way multi-brand dealers give the appearance of upholding the principle of brand exclusivity. Most of the multi-brand dealers in existence today also have little impact on competition, if, for example as a result of industry concentration, they can be assigned to one company group. Trade companies are also not relevant to the consumer as they usually

¹² Cf. here EU/1475/95, Marginal No. 74ff., Autopolis/2000, P. 10.

¹³ Cf. Here Diez, W., Automobil-Marketing, Landshut/Lech 2000, P. 359 ff., Diez/2000.

¹⁴ First estimates show that in Germany in the year 2000 only a few hundred new cars were sold in this way Cf. Über die Internetnutzung beim Autokauf, Autohaus-Verlag & Symposiun Publishing, Publ., Autohandel im Internet, Düsseldorf 2000, p. 24.



do not appear on the market as an operative single unit.¹⁵ A “genuine” multi-brand sale with competing brands of different manufacturers is more likely to be found in the area of exclusive brands, where the low unit numbers make a brand-exclusive dealer network feasible.¹⁶

- Finally, special promotional campaigns launched by car-sector-unrelated retailers can be observed again and again. Examples such as El Corte Inglés, Edeka, Marktkauf, Praktiker, Sainsbury and Tesco, are, however, currently strictly limited by the fact that supermarkets do not meet the selection criteria of the carmakers, whose dealer contracts follow the strict form laid down by the BER. Furthermore, supermarkets cannot obtain vehicles from network dealers, who are prevented by the BER from selling to unauthorised resellers. These cases, however isolated, were generally not very successful¹⁷ and cannot be practically seen as representing an independent sales channel as regards BER.¹⁸ The car-sector-unrelated trade is therefore not studied as a currently existing (established) sales channel but only as a possible future one.

When conducting a consumer survey these differences, which are largely related to sales law, are irrelevant insofar as they do not represent a perceptible difference in the sales network. This is why only the following differences are studied for the sales network as it exists today:

- Franchise dealer,
- Branches (direct sales),
- Re-importers (parallel trade).

Above and beyond these a number of further sales alternatives can possibly establish themselves, depending on future legislation. The following were included in the study:

- Multi-brand dealers¹⁹ with competing brands,

¹⁵ As with „concentration-related“ multi-brand dealers as seen for example with Ford and Jaguar, and commercial companies such as the Frey-Group, that with different companies like Ford-/Jaguar-/Aston-Martin-/Volvo- and Land-Rover-dealers (‘Schwabengarage’), like Hyundai-, Fiat- and Toyota-dealers as well as like general importers for Isuzu Proton and Subaru; cf.. Diez/2000 P. 363ff.

¹⁶ Examples are here the car showrooms Becker in Düsseldorf (new and used cars from Aston-Martin, Bentley, Ferrari, GM, Jaguar, Lotus, Maserati, Nissan, Opel, Rolls Royce,) and Tamsen near Bremen (new and used cars from Aston Martin, Bentley, Ferrari, Maserati, Rolls Royce), that have both new sports car brands and luxury cars under one roof, based on the Shop-in-the-Shop principle; cf. www.Autobecker.de; www.tamsen.de.

¹⁷ The most recent campaign launched by Edeka in Offenburg that according to the information available to Dr. Lademann & Partner brought a sell-off of less than 50 vehicles.

¹⁸ Individual manufacturers that do not maintain their own dealer network could systematically use this path however. Thus the company Daewoo always supplies to every commercial client which takes at least 20 vehicles., cf. Tucke, B. Cost-Conscious Ford Reviews Dealer System in: Business Review Weekly, June 16th 1997, P. 42.

¹⁹ In the following a multi-brand dealer refers to a dealer that offers brands from competing manufacturers. Other uses of the term are marked separately.



- Independent Internet dealerships,
- New players from other retail sectors such as, for example, food chain stores or DIY store chains.

Leasing providers have however not been considered as a possible source of new car sales, as leasing constitutes a form of financing and not of acquisition of ownership of a car.

3.1.2 Workshop/servicing alternatives relevant to the study

In contrast to today's sales structure, the servicing side represents a somewhat more diverse picture. This is due, on the one hand, to the different levels of service (routine maintenance, complex repairs) required during the useful life of a car. On the other hand, the consumer can use other servicing alternatives after the manufacturer's warranty (some up to three years – although often restricted to one year), but not without disadvantages. It must also be borne in mind that the older the car, the more frequently it will need workshop attention. Also the general increase in maintenance and repair costs that an older car brings with it encourages the consumer to consider other, perhaps, cheaper servicing alternatives. Therefore, the following servicing alternatives are to be taken into account:

- Workshop of a branch (in order to reduce the complexity of the survey this was included under authorised workshop),
- Authorised workshop,
- Independent workshop specialising in one (or a limited number of) brand(s).
- Independent workshop (no brand specialisation),
- "Fast-fit" repair chain,
- Petrol stations.

3.2 Link between sales and servicing relevant to the study

The basic types of sales and servicing alternatives were combined to produce a range of combinations that predicts possible alternatives for structural changes in motor-vehicle distribution:

- Direct sale by the manufacturer "ex works",
- Direct sale by the manufacturer via their own dealerships, with a workshop,
- Direct sale by the manufacturer via their own dealerships, without a workshop,
- Franchise dealer with a workshop (classic current situation),
- Franchise dealer without a workshop.

When considering the multi-brand dealer it was assumed that he always operates in conjunction with a workshop. Even if the car-sector-unrelated retailer and the manufacturer-independent Internet dealer could



co-operate with a “fast-fit” repair chain, it is expected that the re-importer will continue to work without his own workshop after the BER expires.

3.3 Choice of the purchase and servicing alternatives as a question of preference

3.3.1 Preliminary remarks

Technical feasibility aside, the success of the existing or possible distribution channels outlined depends principally on consumer acceptance. The degree to which new structures in new car sales and servicing are accepted is related to consumer preference. In virtually all cases this is not a case of making one-dimensional decisions and simple preference rankings. It is rather the case that every product decision is a complex one insofar as every alternative in the market has both advantages and multi-dimensional disadvantages. Preference structures are therefore decisions of selection and assessment taken on different combinations of utility of the offered sales and servicing alternatives.

This initially means that consumer surveys must take into account the multiple dimensions of the situation in which the decision is taken. Asking whether a consumer would buy a new car at a supermarket, for example at a 15% discount, is not permissible in this methodology, as it is abstracted from the utility considerations the consumer takes into account (weighing advantages and disadvantages of competing alternatives). The answer would surely be a different one if, instead of an isolated question about buying a car at the supermarket, the disadvantages of such a purchase were also considered (e.g. favourable purchase in the supermarket, but no sales advice and no test drive, basic showroom, no servicing etc.).

This is where the conventional opinion and satisfaction measurements come up against their methodological limitations because the competition context of the consumers when evaluating existing and potential distribution channels and servicing structures is not assessed. This means the question of acceptance levels or the chances of market success for new distribution forms or independent workshops remains unanswered in the case of a new legal framework. Conjoint measurement is often used, as it can illustrate the preference structure of consumers in such complex selection situations.

3.3.2 Adaptive Conjoint Analysis (ACA) – an overview

The research into consumer preferences is conducted by means of Conjoint-Measurement (CM). This group of processes allows the researcher to determine the benefit of individual market services on the basis of a global evaluation process. By referring directly to typical conflicts involved in the selection process of deciding on a purchase (e.g. high quality – but expensive), it reflects the process of considering the benefit to the consumer much more adequately and therefore more realistically than conventional processes, e.g. opinion-based research that neither takes into account a final decision nor is conducted in a



way that takes in the entire process (isolated [compositional] querying of individual features). This study was based on Adaptive Conjoint Analysis (ACA).²⁰

The CM method is fundamentally suited to identifying consumer preferences regarding the individual attributes of purchasing and servicing alternatives. Moreover, through a market simulation, this method can assess the market opportunities for individual sales or workshop alternatives (e.g. sale via the Internet, servicing in an authorised workshop) as well as their expected utility (expected discount on the purchase of a new car, delivery periods, etc.)

²⁰ The advantages of the ACA software include the adaptive approach. It enables a constant adaptation of the questions during the course of the interviews. The interview is practically tailor-made for each participant. The program concentrates on the areas that appear most important to the interviewee. Each time a selection of attributes (here the sales and service network) is presented (part-profile). This prevents too much information converging on the participant at once ("information overload") resulting in him perhaps concentrating only on a few features. The program presents the participant with hypothetical product concepts/purchasing situations that are created and continually checked on the basis of the information given by the participant. By taking this approach the number of questions can be reduced. Also, the quality of the answers and the willingness to participate increase.



The interview process is broken down into three parts:

- Screening questions to determine the target persons and to request the preferred sales channels and servicing alternatives when buying a new car
- The conjoint measurement method, aimed at determining the preferences of the consumer regarding certain product properties; in this study certain sales forms for new cars.
- Questions of a socio-demographic nature.

3.3.3 Structure of a survey using Adaptive Conjoint-Analysis (ACA)

The Conjoint-Analysis on the basis of the applied ACA software consists of three modules:

- Interview Module
- Module to compute the benefit to the participant (preference hierarchy)
- Market simulator, which can be used to test alternative market constallations on the basis of the computed benefit.

From the exclusion and ranking of certain attribute levels, the interview program calculates the part worth that the interviewee assigns to that particular attribute level. For this purpose the program combines the attribute levels on the basis of the answers given by a participant. If the answers made by the participant are stringent, the program then presents a smaller number of combinations, and vice-versa. Based on the part worth, the overall utility can then be determined for a certain purchasing situation/sales form. The conjoint program thus goes through six stages.

- **Unacceptables**
By finding out which attributes are unacceptable, the irrelevant ones can be eliminated from the rest of the interview. At this stage the interviewee lists the attribute levels that he will not accept as an alternative under any circumstances.
- **Preference Rankings/Ratings**
During this stage the interviewee is asked to produce a ranking of those attribute levels that he has not yet excluded. The attribute levels asked about are those which cannot be assigned a ranking a priori (e.g. level of discounts).
- **Most Likelies**
The most highly preferred variable is only asked about for those attributes, for which there are still more than five levels accepted (after the unacceptable attributes have been eliminated.)
- **Importance of Ratings**
At the next stage the interviewee must decide how important he finds the difference between two attribute levels. Of course the attribute levels so far excluded are also no longer present here. The most preferred levels for every attribute are contrasted with the least preferred. The more important the decision between the two levels of an attribute, the greater the importance of the feature itself.



- Paired-Comparison Trade-Offs (Pairs)

In this part of the interview the interviewee is presented with hypothetical purchasing situations/sales forms in the form of part profiles. These purchasing situations are compared and the interviewee must now say which of these models he prefers, and to what degree. On the basis of these answers, the program processes the calculated part worth. For this purpose, the interviewee is offered two indifferent pairs whose utility is as similar as possible. If this improves the ACA program's utility assessments, the pairs thus presented are conceived in such a way so as to make the choice increasingly difficult for the interviewee.

- Calibration Concepts

This is followed by the generation of purchasing situations involving four attribute levels in a random sequence that are based on the answers to the previous questions. During this stage the interviewee is presented with one purchasing situation after another which least and best correspond to his preferences.

3.4 Population, random testing and the interviewee

The population from which the sample is drawn comprises final consumers over the age of 18 that have already bought at least one new car or plan to purchase a new car. This completely excludes buyers of relatively new used cars. People who claimed to have made a major contribution to the buying decision were also included.²¹ Contour blurring can, however, result from the fact that, from the consumer's viewpoint, a virtually new car (day registration, customer-configured test car) is seen as a new car. If the consumers have implicitly understood these to be new car purchases, it shows that such cases are functionally equivalent to the purchase of a "really" new car. If this causes a market parity evaluation or exchangeability, the relevant market would have to adopt a broader definition of a new car. In our opinion this contour blurring during the interview process does not have a distorting effect because the related price reductions are then recorded in the findings regarding discount preferences.

In order to record decisions that are as close to the market as possible, the decision to buy a new car was limited to the period of the last five years and the next year. An internal pre-test had shown that all interview participants were able to clearly remember the situation and the economic benchmarks relating to their last, and sometimes second-from-last and third-from-last car purchases. This ability to recall the situations reflects the length of the decision-making process before buying a new car – on average nearly a year.²² The research design was implemented by means of telephone interviews.

Regarding the question of which criteria are relevant to the selection of purchasing and servicing alternatives from the consumer viewpoint, several studies conducted by the automotive industry show the following picture (cf. illustration).

²¹ So the purchase of a new car is based on a decision by more than one person, Cf. Diez, W./2000.

²² Cf. also . Diez, W./Meffert, H., Grundlagen der Automobilwirtschaft, Ottobrunn 2000, P. 100.



Criteria for Choice of Dealer and Workshop by Customer

<p style="text-align: center; margin: 0;"><u>Germany 1 *</u></p> <ul style="list-style-type: none"> • a name you know <ul style="list-style-type: none"> • make • good deal/price • distance/local dealer <ul style="list-style-type: none"> • good service • brand • good advice by sales person • recommendation <ul style="list-style-type: none"> • discount • store-atmosphere 	<p style="text-align: center; margin: 0;"><u>Germany 2 **</u></p> <ul style="list-style-type: none"> • confidence in retailer • best price-performance <ul style="list-style-type: none"> • opportunity for testdrives • quality of advice for trade-in allowance • optimal location of dealer • quality of advice for financingoptions • modern presentation 	<p style="text-align: center; margin: 0;"><u>United Kingdom ***</u></p> <ul style="list-style-type: none"> • a name you know/trust • concrete make • good deal/price • recommendation • wide range of cars • customer service <ul style="list-style-type: none"> • quality of salespeople
* CarGarantie 2000	** Allbank / Autohaus Automobilverkauf 2003	*** Lex Report

Projektnummer | Projektname | November, 01 | Chart 1
 © Dr. Lademann & Partner Gesellschaft für Unternehmens- und Kommunalberatung | Ebert-Damm 311 | 22159 Hamburg | Tel (0 40) 64 55 77- 0 | Fax (0 40) 64 55 77-

The different types of demands consumers make on today's car dealer are selected for the survey in such a way that they take account in particular of the possible differences between the alternative distribution paths, since the various levels of benefit associated with these paths lead the differences in consumer preference. This is why the following attributes were considered:

- Customer relationship with the dealer

This criterion subsumes all of the consumer's contacts, whether these be of a purchasing or a workshop nature. It includes the need for consumer confidence as a basis for the selection of the dealer or workshop.
- Access to test drives

It is precisely in the area of new sales alternatives such as the independent Internet dealer or the car-sector-unrelated dealer that, in contrast to current norms, test drives are not possible.
- Advice given by a salesman

The advice given by the salesman includes all questions connected to the purchase (model and technical advice, advice on equipment, financing/part-exchange packages).
- Distance to the servicing centre

The density of the sales and servicing network is more than just a core criterion in the decision of the consumer. The exemption of the "relative sales area protection" in the dealership contracts under Article 81, para. 3 EC treaty was always justified by the necessity of a ubiquitous servicing network for a technically complex product.
- Discount



In this study, price discounts may comprise a deduction from the list price, the price for the intake of a second hand car and other products linked to the purchase which are offered at favourable terms.

- **Equipment selection**

With respect to the ability to select equipment, it is precisely the new supply channels which differ from the existing ones. This means that it is to be expected that a car-sector-unrelated retailer will offer new cars “from stock” without giving a choice of equipment.

- **Delivery Period**

The delivery period is also a criterion in which the future sales alternatives will differ markedly from existing ones. This is connected with the expected product range policy (concentration on “fast sellers”) and the discontinuance, in principle, of the choice of equipment.

3.5 Questionnaire

3.5.1 Basic concept

The structure of the telephone-aided interview concept (cf. appendix) is based on the following pattern:

- Identifying the target person for the interview;
- Brand or vehicle bias when buying a car

For the purposes of the first set of questions, the participant was, on the one hand, to be made aware of the general subject. On the other hand, the question is to ascertain whether the brand or type of vehicle played a determining role in the purchasing process.

- **Conjoint measurement (see below)**

Here further attributes are determined, in addition to the sales and servicing alternatives, which are different for the various distribution channels and therefore influence consumer preferences.

- **Demographic features of the participant and the household**

EU country, location, number of cars per household, size of household, age of the participant, household income.



3.5.2 Conjoint measurement part: Attributes and attribute levels

- Sales alternatives (“attribute“)
 - Purchase from manufacturer (“level” of the attribute)
 - Purchase from franchise dealer (authorized dealer)
 - Purchase from dealer who carries different brands (authorized multi-brand-dealer)
 - Purchase from re-importer
 - Purchase from car-sector-unrelated dealer (e.g. supermarket/DIY store)
 - Purchase from Internet dealer
- Workshop alternatives
 - Servicing by authorised workshop
 - Servicing by workshop concentrating on one brand
 - Servicing by workshop catering for several brands
 - Servicing by fast repair chain
 - Servicing by petrol station
 - No servicing
- Discount/price
 - Purchase without discount
 - Purchase with 5% discount
 - Purchase with 10% discount
 - Purchase with 15% discount
 - Purchase with more than 15% discount
- Equipment alternatives
 - Only basic equipment
 - Full equipment
 - Free selection of equipment
- Delivery period
 - Delivery within several months
 - Delivery within a few weeks
 - Delivery within a week
- Good customer relations
 - Personal contact is very important
 - Personal contact is not so important
 - Personal contact is not important



- Test drive
 - Test drive of all models
 - Test drive of most common models
 - Test drive not possible
- Advice from a salesperson
 - Thorough advice given by salesperson
 - Basic advice given by a salesperson
 - No advice given by a salesperson
- Distance to workshop
 - Up to 15 minutes
 - Up to 30 minutes
 - Over 30 minutes.

3.6 Conducting the survey

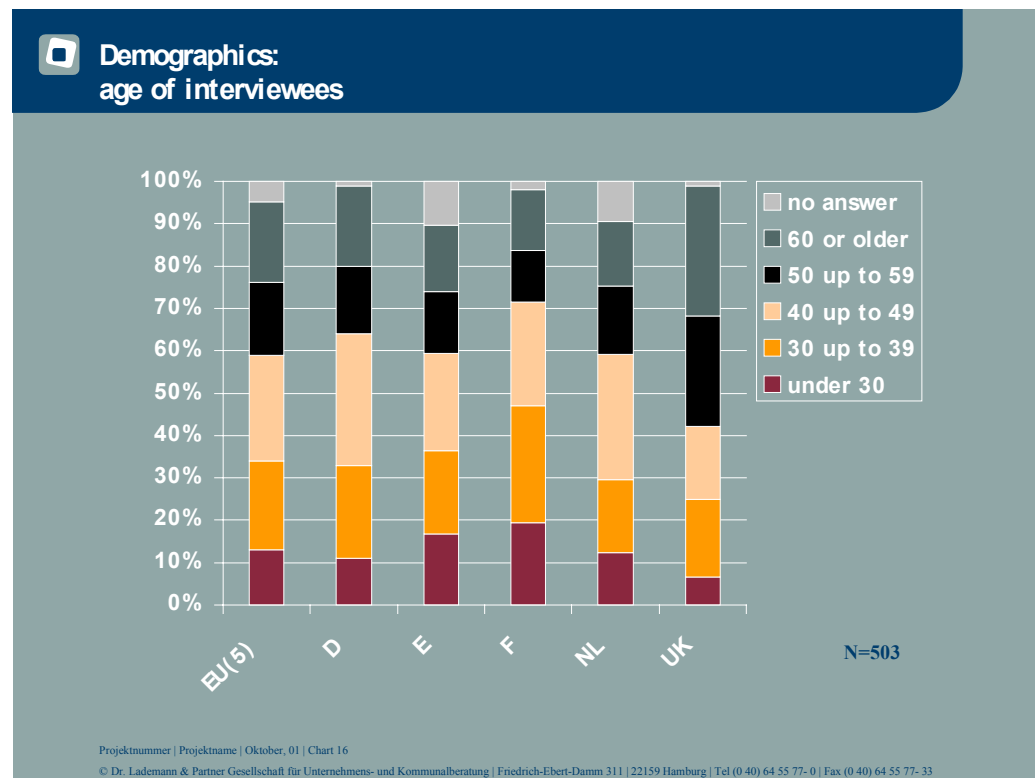
Those questioned participated willingly in the survey and readily accepted the subject and the way the interview was conducted. In particular, the interviewees in Germany and France participated enthusiastically. The interviewees in Great Britain, the Netherlands and Spain were somewhat more reserved in their interviews. In these countries, participants often refused to give information regarding their (and their households') demographic characteristics. This is due to the fact that the conjoint measurement part of the interview at the beginning lasted approx. 15 to 20 minutes and as such took up most of the time that participants are normally prepared to invest in telephone interviews.



4 Presentation and analysis of the survey findings

4.1 Demographic features of the random sample

The random sample was designed to reflect as far as possible an exact representation of the parent population (universe) in order to be able to draw conclusions on the situation in Europe. The universe (or total base) was defined here as car buyers that had acquired a car for private use in the last few years or intend to do this within the next few years. In contrast to the demographic structure of the total population, only some official data exists on the statistical composition of this parent population. It is therefore necessary to evaluate the demographic features of the random sample by means of plausibility considerations.

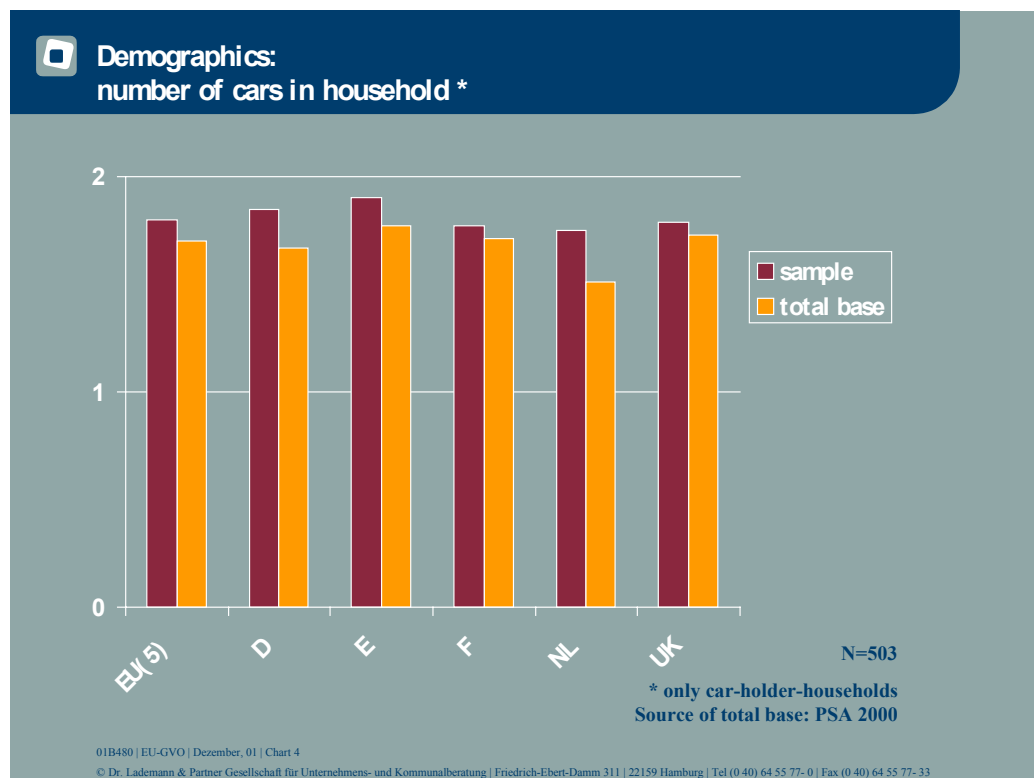


Measured by the age structure of German new car buyers,²³ the random sample shows an increased proportion of purchasers of up to 29-year-olds and 40 to 49-year-olds and a slightly lower proportion of older consumers (older than 50). Later, we will examine whether the age of the interviewees has a noticeable influence on their preferences.

²³ Cf.: Statistical announcements of the Federal Automotive Agency, Series 3, Special Edition 1, Annual Results 2000, P. 116.



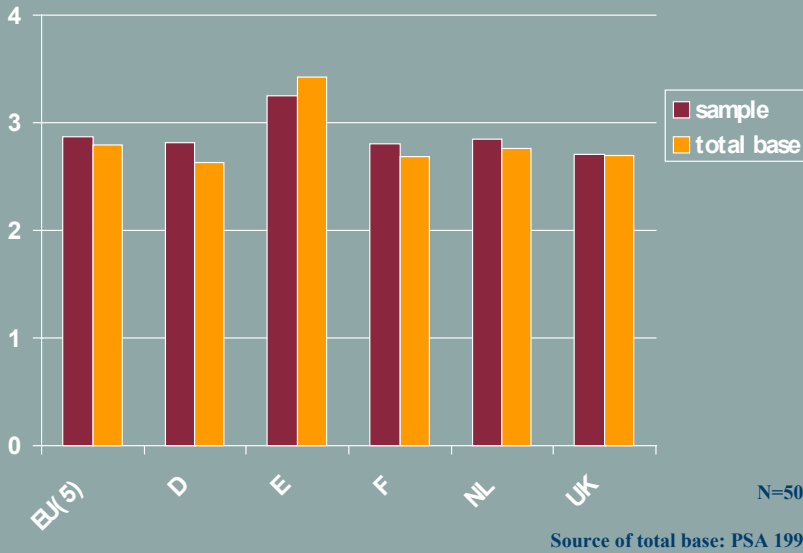
In the random samples, the average car-owning household was made up of 2.87. This corresponds almost exactly to the average of 2.79 cars per household in the parent populations of the countries reviewed. The random samples in the individual countries also represent the households owning cars in those countries very well.



The random samples are almost perfectly representative of the parent population as regards the number of cars in a household (for those households which have a car). This is valid for the whole overview of all five countries and also for the individual countries.



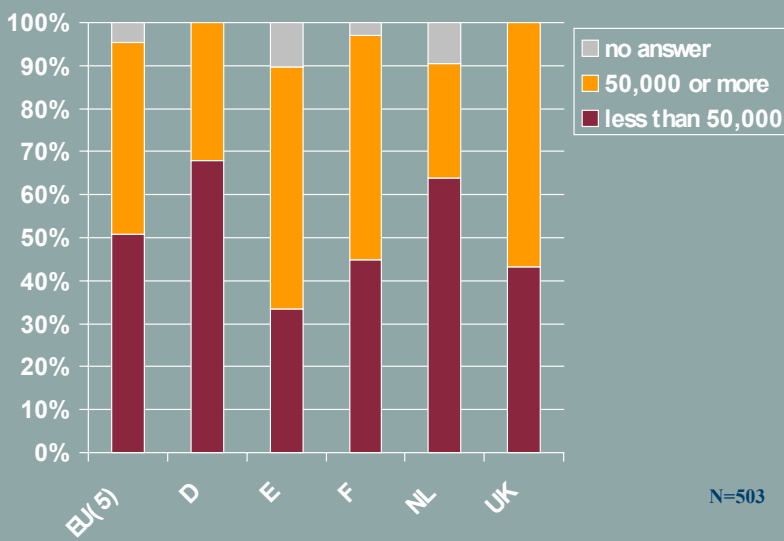
Demographics:
persons in car-holder-households



01B480 | EU-GVO | Dezember, 01 | Chart 3

© Dr. Lademann & Partner Gesellschaft für Unternehmens- und Kommunalberatung | Friedrich-Ebert-Damm 311 | 22159 Hamburg | Tel (0 40) 64 55 77- 0 | Fax (0 40) 64 55 77- 33

Demographics:
inhabitants of town



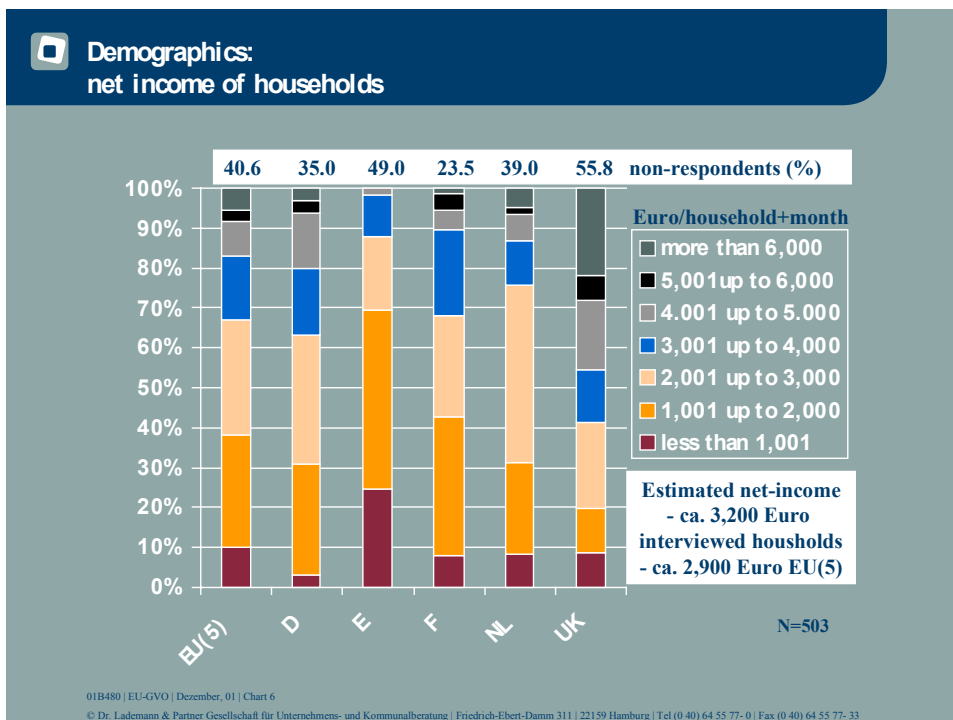
01B480 | EU-GVO | Dezember, 01 | Chart 5

© Dr. Lademann & Partner Gesellschaft für Unternehmens- und Kommunalberatung | Friedrich-Ebert-Damm 311 | 22159 Hamburg | Tel (0 40) 64 55 77- 0 | Fax (0 40) 64 55 77- 33



As regards the size of the town where the interviewees live the random sample (excluding those that did not answer this question) corresponds roughly to the distribution of the population of Germany where about 60% live in towns with up to 50,000 inhabitants (taken from the 1999 statistics year book of German communes). For France the percentage is almost 45% (taken from Park Automobil Sofres 1999). This structure corresponds very well to the random samples, there is no obvious reason to assume that the random samples in other countries have a significantly different quality.

The net per capita income per month in the countries studied lies between 1,100 and 1,200 Euro. The random sample average is approximately 1,000 Euro. As a consequence the higher income groups are slightly underrepresented in the random sample.



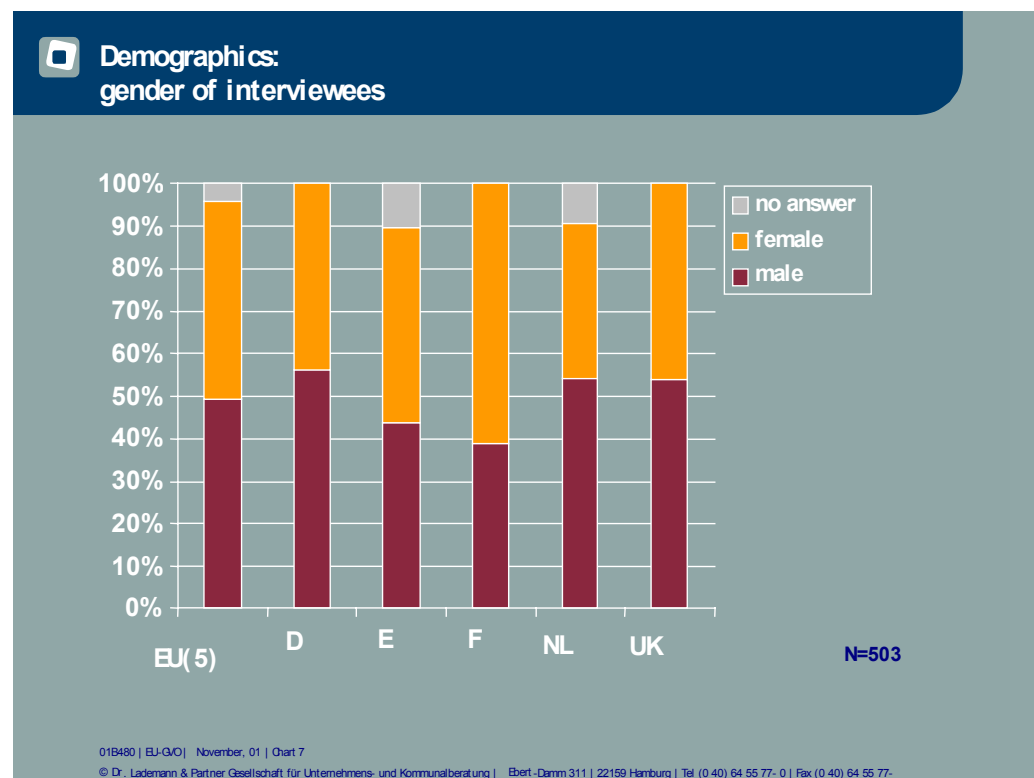
The distribution of men and women is nearly equal in the random sample – an over-representation when measured by the proportion of the vehicle owners. Women have a share of slightly below 30% of new car registrations.²⁴ However, this structure reflects the delimitation of the parent population, which also in-

²⁴ Cf. Statistical Communications of the Federal Automotive Agency, Series 3, Special Edition 1, Annual Results 2000, p. 116.



cludes people who were a significant part of the buying decision.²⁵ Later we will check whether the disproportionately high proportion of women has a fundamental influence on the average preference structure.

Available statistics and plausibility considerations show that the structure of the random sample gives a valid representation of the car-owning households, at least overall for the five countries studied. As concerns individual differences in structure, it will be determined at a later stage whether the respective country structure exerted an influence on the preferences or not.



4.2 Purchasing and workshop behaviour

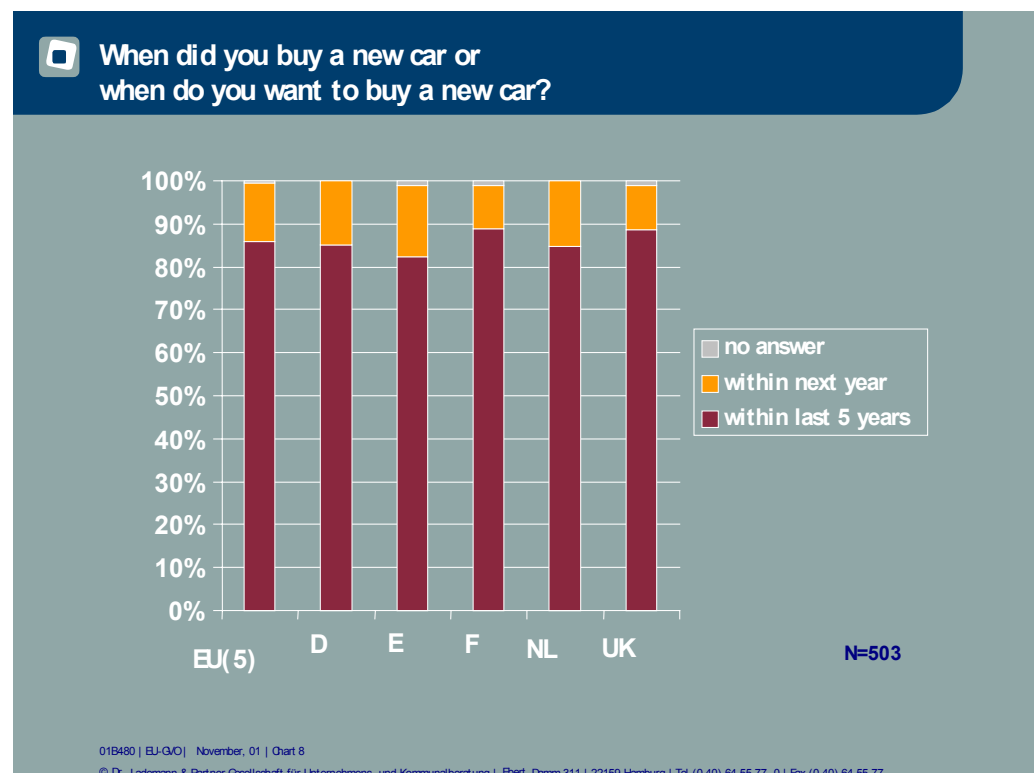
The percentage of purchasers over the last five years making up the total number of interviewees was roughly 85% and is thus roughly in line with the five-sixths which one would expect. The new car buyers in the random sample prefer to proceed as follows:²⁶

²⁵ The purchase of a new car is strongly subject to a collective decision-making, see also Diez, W./2000, p. 64.

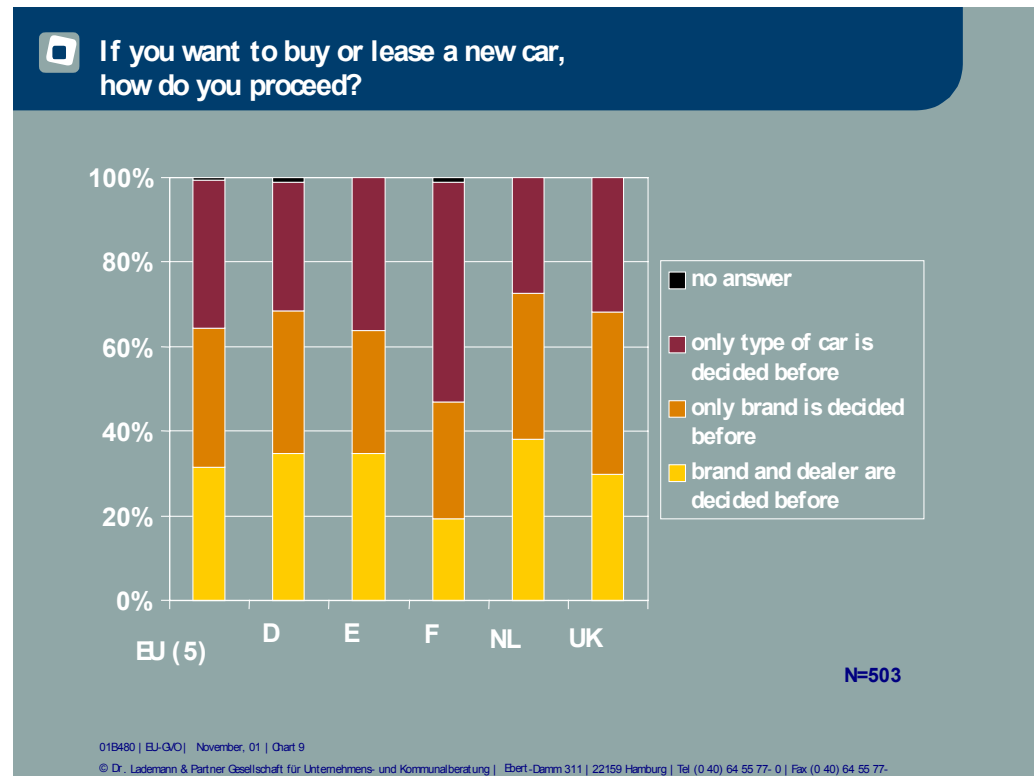
²⁶ These findings correspond with those of the Taylor-Nelson-Sofres study, according to which two-thirds of new car buyers who are not brand-loyal seek out dealers for different brands; but 47% of brand-loyal consumers also go to other dealers carrying the same brand; Cf. Taylor-Nelson-Sofres, Publ. Attitudes towards the European Automotive Distribution System, Executive Summary Report, 2000, p. 5, in the following Taylor-Nelson-Sofres/2000. This



- About a third of the buyers or persons interested in a purchase were clear about the brand as well as the dealer. These regular customers obviously have no intention of switching brands or dealerships (especially NL, E and D).
- Another third had already decided on the brand and is prepared within this choice of brand to switch dealerships (especially UK).
- Finally the remaining third have a type bias; this means that the consumer has not settled on a fixed brand and dealership. The consumer is clear in his mind on the type of vehicle and looks for the best brand and dealership that matches the type.



assessment is underscored by brand loyalty in buying cars in Germany, that is given as 57% (Cf. DAT/veedol Report 1999, p. 41).



The sales channels chosen by consumers for their last/planned new car purchase basically reflect the distribution structure in the five EU countries:

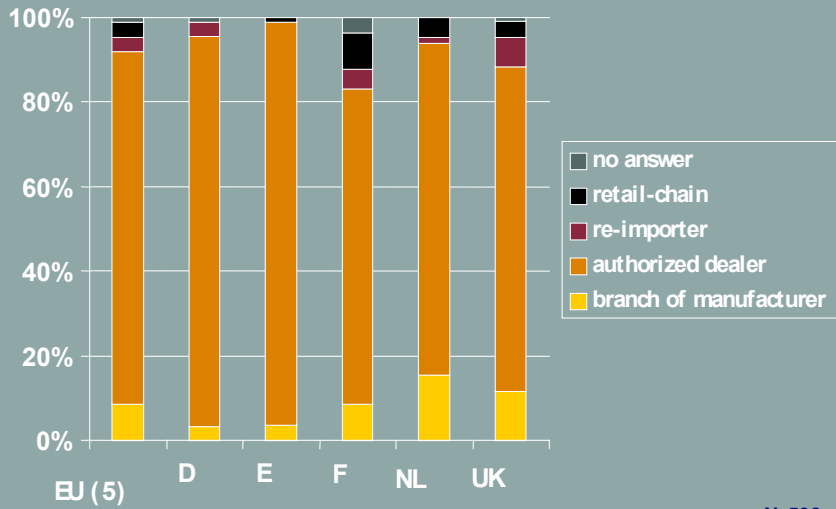
- Overall direct sales by the manufacturer via their own branches attain almost 10%.
- Other sales channels record a share of almost 8%, the purchase from players from other retail sectors primarily being based on intentions to buy within the next few years.
- Otherwise the franchise dealer dominates with a comfortable 81%.

The variations among the countries may indicate a lower level of accuracy on account of the low random sample. They show however that in the Netherlands, Great Britain and also France a disproportionately high share is accounted for by direct sales, which tends to be confirmed by the manufacturers.

The structure of the servicing market for cars that were bought new from a franchise dealer or directly from the manufacturer shows a basic competitive pattern. Between 25% (D) and up to about 50% (NL) of servicing is provided from outside the dealer network. This aspect cannot be further differentiated here.



Where did you buy or lease the car or where do you want to buy or lease the car?

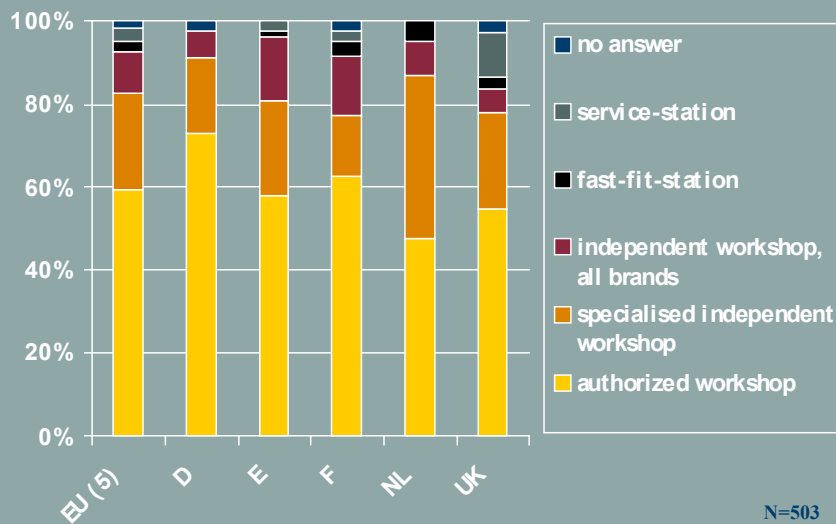


N=503

01B480 | EU-GVO | November, 01 | Chart 10

© Dr. Lademann & Partner Gesellschaft für Unternehmens- und Kommunalberatung | Ebert-Damm 311 | 22159 Hamburg | Tel (0 40) 64 55 77- 0 | Fax (0 40) 64 55 77-

Which kind of servicing alternative do you intend to use?



N=503

01B480 | EU-GVO | Dezember, 01 | Chart 11

© Dr. Lademann & Partner Gesellschaft für Unternehmens- und Kommunalberatung | Friedrich-Ebert-Damm 311 | 22159 Hamburg | Tel (0 40) 64 55 77- 0 | Fax (0 40) 64 55 77- 33



The purchasing behaviours recorded correspond well with the findings of other studies.²⁷ According to these, franchise dealers dominate in the sale of new cars and, within the warranty period, the servicing market; but they are currently subject to considerable competition in both markets – at least outside the warranty period.

4.3 Basic evaluation of the Conjoint part of the survey

4.3.1 The importance of the surveyed sales and servicing areas

4.3.1.1 Overall and country-specific

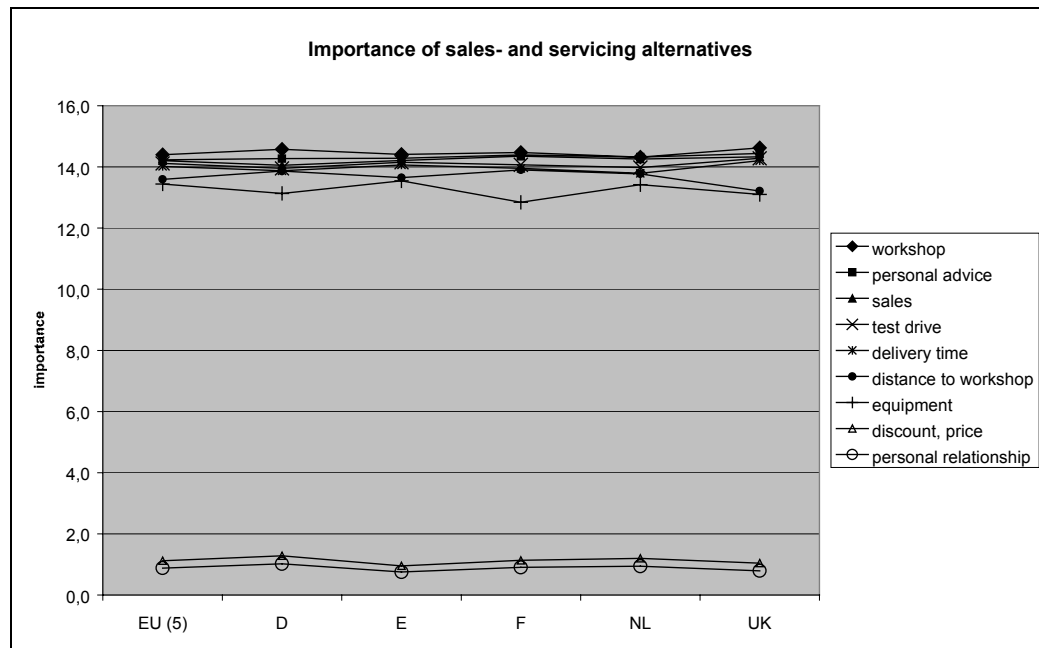
According to the ACA concept, the importance of the tested attributes is derived from the spectrum of evaluations for the individual attribute levels. This is related to the fact that attribute levels that are evaluated quite similarly by the consumers (for example a purchase from a supermarket as compared to a purchase from a DIY-market), clearly do not trigger highly differing preferences.

The following graph shows that two features, price and good customer relations, are clearly of lesser importance compared to the others. This applies not only to the five countries in total, but also to each individual country. Since the importance reflects the spectrum of evaluations, this initially surprising result might indicate that discounts are widespread today and that consumers expect to always be granted relevant discounts – no matter which distribution channel they are using. So, the price feature is obviously not an important factor in distinguishing a car dealer in competing with other dealers, or in determining the consumers' decision as regards the purchasing channel.²⁸ In view of all the other opportunities used by consumers it hardly seems possible to achieve a long-term competitive advantage via the price. Due to the high degree of price transparency for consumers, there is a high level of motivation for dealers to be flexible as regards discounts in order to shift the competition for consumers to other less transparent instruments, for example, to financing/leasing offers, to extras, workshop vouchers, etc.²⁹

²⁷ The Autopolis Study reported that, looking at the big picture of new car servicing, 59% of people in Germany, France, Italy, Great Britain and Spain visit a franchise dealer, 24% an independent workshop and approximately 3% a fast-fit chain. This means that about 17% of the service provision is covered by other providers. Cf. I. Autopolis/2000,p. 16.

²⁸ In relation to this, it is interesting to note that consumers are prepared to drive up to 52 minutes (on average) to buy a car.; Cf. Automobilverkauf/1999, p. 20.

²⁹ However, the low preference for discounts results also from the structure of the distribution system. The fragmented network of dealers allows for no advantages from the size of a business, the margin policy of manufacturers gives no or hardly any bonus for large quantities.



In the figurative sense, this also applies to good customer relations, which are less relevant as a distinguishing factor in total and also in the individual countries. These do not give a car dealer any advantage, if the other criteria are not fulfilled. Good customer relations do not compensate for poor personal advice or unacceptable servicing quality. Good customer relations are only relevant if these basic criteria have been fulfilled. This is an explanation for their relative unimportance.³⁰

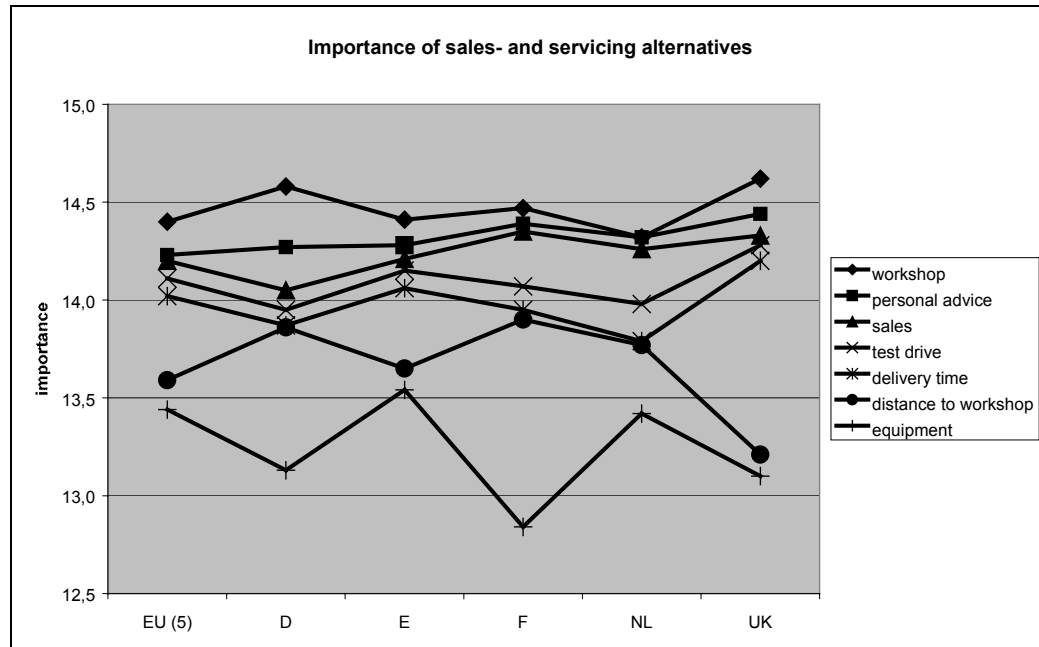
If we have a look at the more important features, the following remarkable differences result from the following figure:

- Consumers mostly differentiate by servicing options; consumers seem to perceive the greatest differences between the attribute levels presented as regards this feature.
- The same importance is given to the feature personal advice, followed by the different sales methods (distribution).
- Then come the features test drive and delivery time; even more important than the equipment feature is the distance to the workshop.

As a whole, these features show that the purchase decision is already influenced by the expectations or experiences relating to the utilisation phase. In basic terms, the findings can be summarised as follows:

the utilisation phase is more important than the purchasing phase.

³⁰ This evaluation is supported by the above-mentioned Allbank/Autohaus study, according to which one of the most important demands of buyers of new cars, after a list of basic services and high social competence, is competent advice in various forms; Cf. *Automobilverkauf/1999*, pg 14f.



It is also noticeable that there are similar preference structures in the individual countries. Although the importance given to the individual features differs from country to country, the ranking is almost identical. So the most important criterion is the after-sales servicing, with the exception of the Netherlands, where personal advice has slightly higher significance. In France, the choice of equipment is not as important as in other countries, which is presumably due to the policy of the French automobile industry to include a wide range of features as standard equipment rather than as options.

The type and quality of the services later desired is an omnipresent factor as regards the purchase of a new car. The consumer obviously really expects the servicing of the car to be assured after its purchase.³¹ This also explains the role of the price: Who wants to buy a car at a high discount, if that price means risking quality deficits (e.g. in reliability) or inferior servicing? The discount (price) only has a motivating effect – similar to good customer relations – if all other expected services with respect to sales and servicing have been fulfilled.

4.3.1.2 The influence of demographic factors on the level of importance

The significance or ranking of the features examined does not differ much among the three orientation types purchasing a new car. In detail, the following differences exist:

³¹ Another report also suggests that 88% of new car buyers expect sales and servicing in one place, Cf. o.V., Automobilverkauf 2003, Allbank Allgemeine Privatkundenbank AG and Autohaus Verlag G,bH & Co. KG, Hannover/Ottobrunn 1999, p. 6.



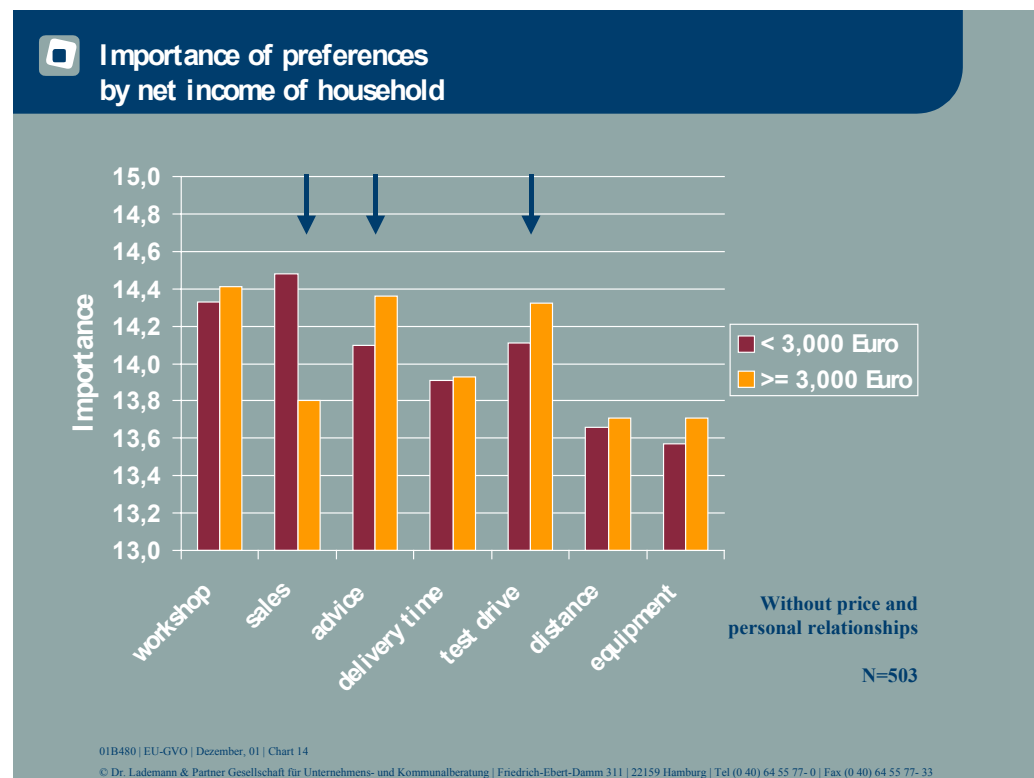
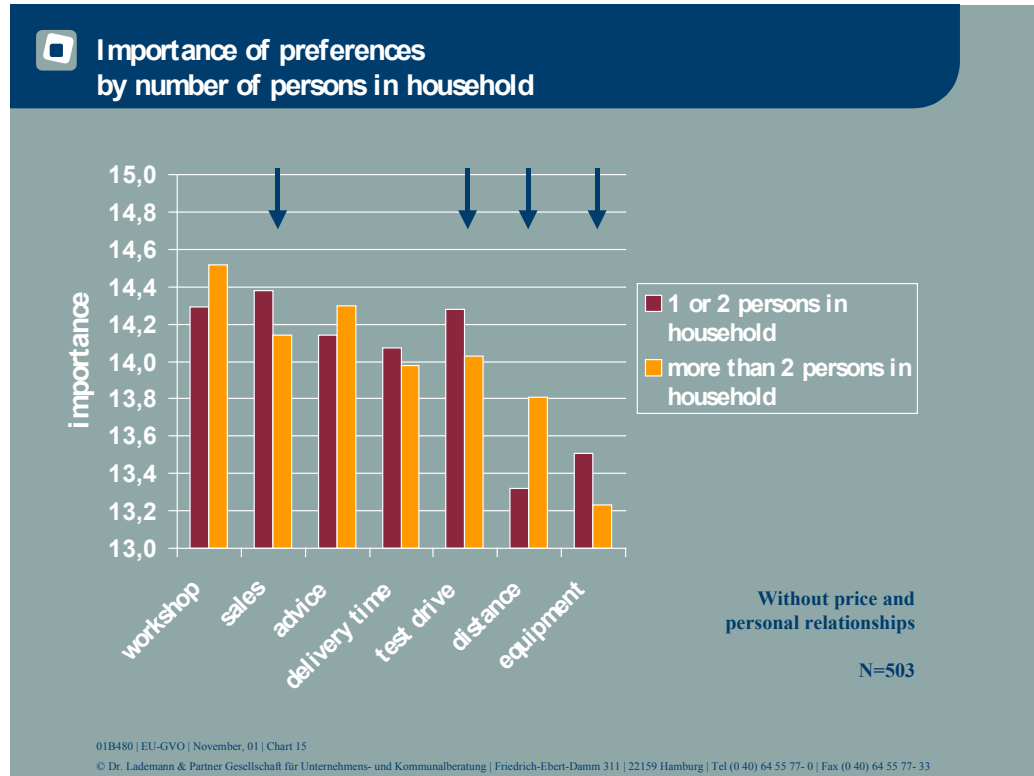
- For dealer-loyal customers, who have already made their decision on the brand and the car dealer, the question of the equipment and, in part, of delivery time is clearly more important than for the other types of buyers. The other features are less significant than in the other customer groups. This fact confirms the low level of preparedness to change dealers, compared to the other customer groups.
- For brand-loyal customers the opportunities to take a test drive and the sales options as well as the workshop are important to a disproportionately high degree, which is quite logical: They are loyal to the brand, but prepared to change the dealer and therefore assign great importance to such factors.
- Type-minded consumers give great importance to the workshop and personal advice, which is logical since they are open as regards their brand and dealer choice.

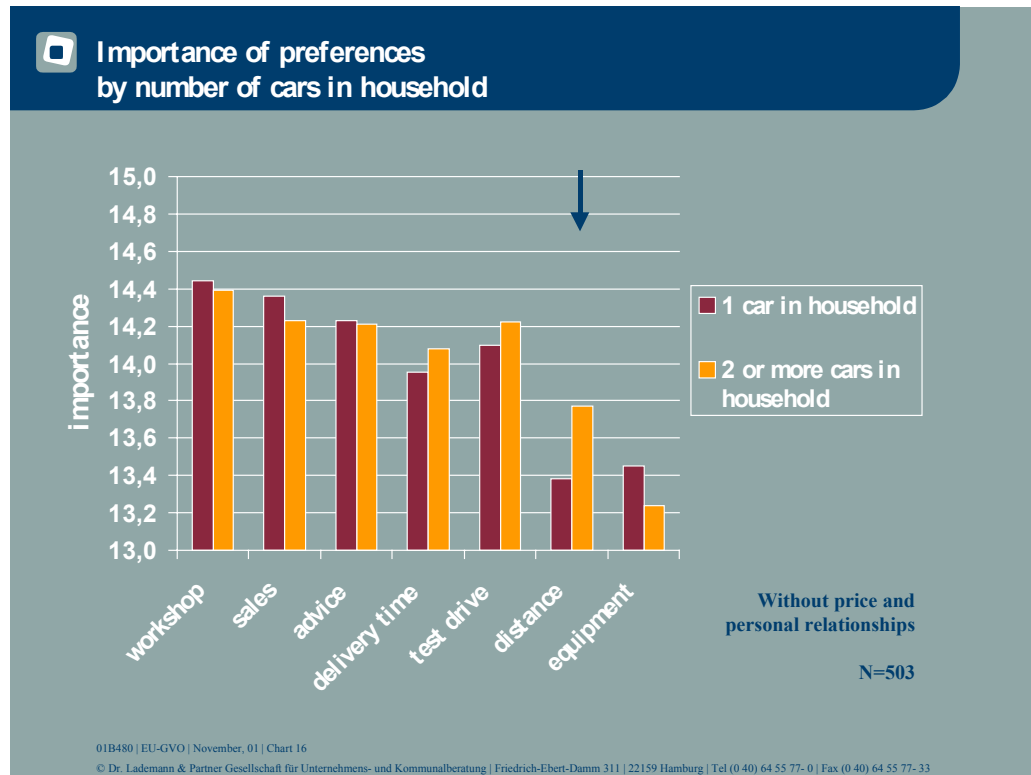
The importance given by consumers to the examined features matches their loyalty habits in a plausible way.



As regards larger households the workshop alternatives and the distance to the workshop are very important criteria. This is obvious, since larger households depend more on the reliability of the car and the proximity of the workshop than smaller households.

Households with higher income give greater priority to personal advice and test drive options than households with lower income, for which the basic purchasing options are more important. This is plausible, since for households with lower income, good selection options and competition among the different dealers are important to be able to realise good prices.

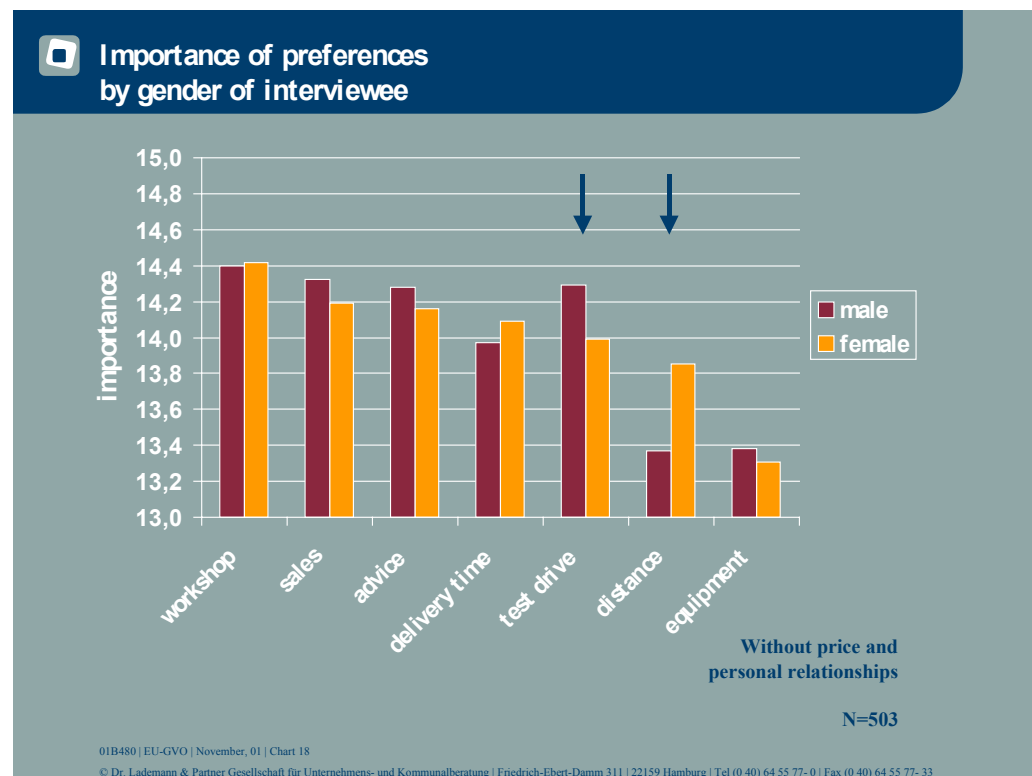
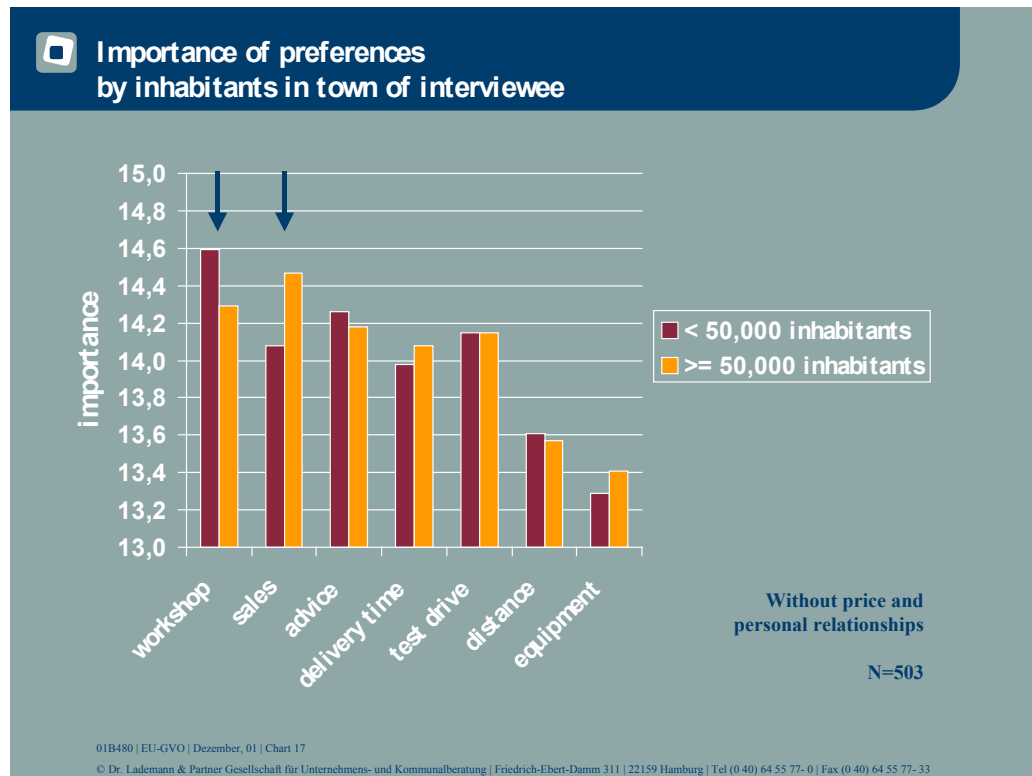




In general, the ranking of the criteria does not depend on the number of cars in a household. However, the distance to the workshop seems to be more important for households with several cars than for households with only one car.

In part, the importance of preferences is clearly different with respect of the size of the town consumers live in. Consumers living in smaller towns give more importance to the workshop; consumers from larger cities, however, put their emphasis on the sales alternatives. In our opinion, this fact represents the different supply opportunities and demands of people living in urban compared to rural regions. People in thinly populated regions give more importance to an adequate servicing network than do people in densely populated regions, since they always have a sufficient number of alternatives.

The differences in the importance given to the individual preferences are quite low when viewed by gender. Men give more importance to test drives than women, who regard the distance to the workshop as more important. In our opinion, this reflects the gender differences in the basic attitude towards cars.





The demographic factors influence the importance of individual features in a way that leads to plausible differentiation. In the big picture the importance of features does not differ strongly enough, whether by demographics or by country, to warrant investigating these differences further.

4.3.2 Part worth of individual sales and servicing elements

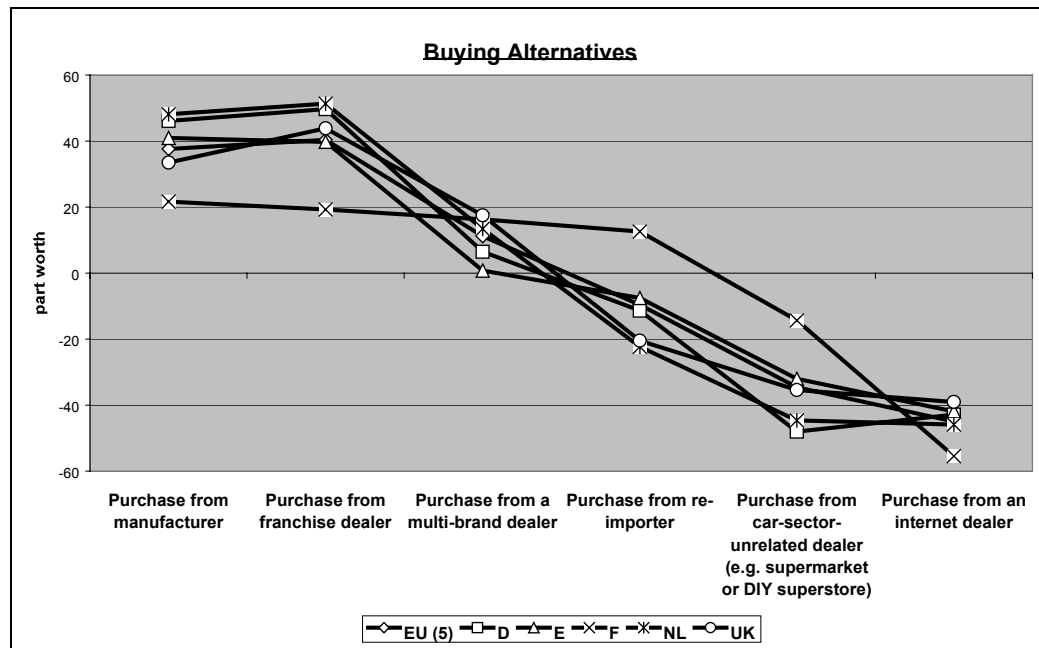
4.3.2.1 Overall and country-specific

The part worth for the various attribute levels of the studied features of the sales and workshop complex is presented in the following. The part worth of a level within a feature adds up to zero within the context of the ACA algorithm. Therefore, measured on the individual demand level, a negative part worth indicates an aggravation, a positive part worth an improvement in the user utility.

In this way, the attribute levels within a feature can be directly compared to each other. A part worth, e.g. for the purchase from a franchise dealer, e.g. of +30 would be twice as high as a part worth of +15 for a multi-brand dealer. Simultaneously, it is also possible to derive the overall benefits for individual business models of car sales and servicing from the addition of the part worth, whereby these overall benefits are also being used as an indicator for their market acceptance within the context of further market simulations.

The part worth for the attribute 'basic' shows that, in total, the purchase of a new car from a franchise dealer has the highest part worth. It is directly followed by the purchase of a new car directly from the manufacturer. The multi-brand dealer is also evaluated positively, but with a lower part worth. The purchase of a new car from re-importers and sector-unrelated retailers or from independent Internet dealerships has a negative part worth.

In general, there is a largely comparable structure in the individual countries as regards the ranking of the part worth. Only consumers in France evaluate the part worth for existing purchasing channels less positively and seem to value purchasing via re-importers or car-sector-unrelated retailers more than do consumers in other countries, although they evaluate the Internet as being the least desirable purchasing channel.



A principally similar structure of the part worth can be observed with respect to the servicing alternatives examined. But an authorised workshop does not have a very large lead over the independent workshop with brand specialisation. While an independent workshop not specialised on a specific brand also has a certain positive part worth, this is negative as regards a rapid repair chain. The negative part worth of servicing assigned to petrol stations is only surpassed by a franchise dealer that does not offer repair services.

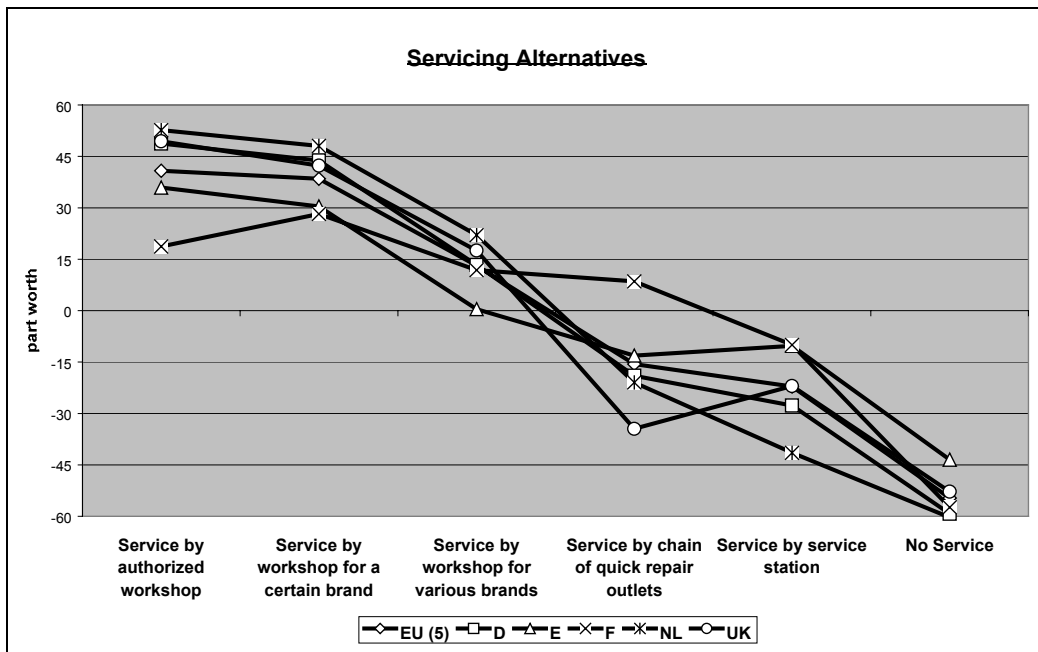
If distinguished by countries, the structures of the part worth are quite similar in D, E, NL and UK, although opinions are more divergent in the negative evaluation of the part worth of petrol stations. Buyers of new cars in France vary the part worth of the different alternatives to a lesser extent. There, independent, specialised workshops have the highest part worth. Servicing by “fast-fit” chains also have a positive part worth, while that of petrol stations is not as negative as in other countries. This mainly reflects a different attitude towards cars, which, in France are viewed more as utility objects than prestige items.

The part worth increases according to how strongly a workshop is specialised on a brand. In other words: The part worth of the servicing alternatives increases with the increasing influence of manufacturers on the quality of servicing. Since purchasers of new cars were interviewed in this study, the ties to the authorised workshop required by the warranty conditions are reflected, which certainly have a positive part worth. But the higher part worth of services that are directly influenced by the manufacturer is also proof of the fact that the technically best possible servicing is preferred.³² Therefore, the brand-exclusive specialisation of the workshop and the influence of the manufacturer on the services are, in total, related to a higher cus-

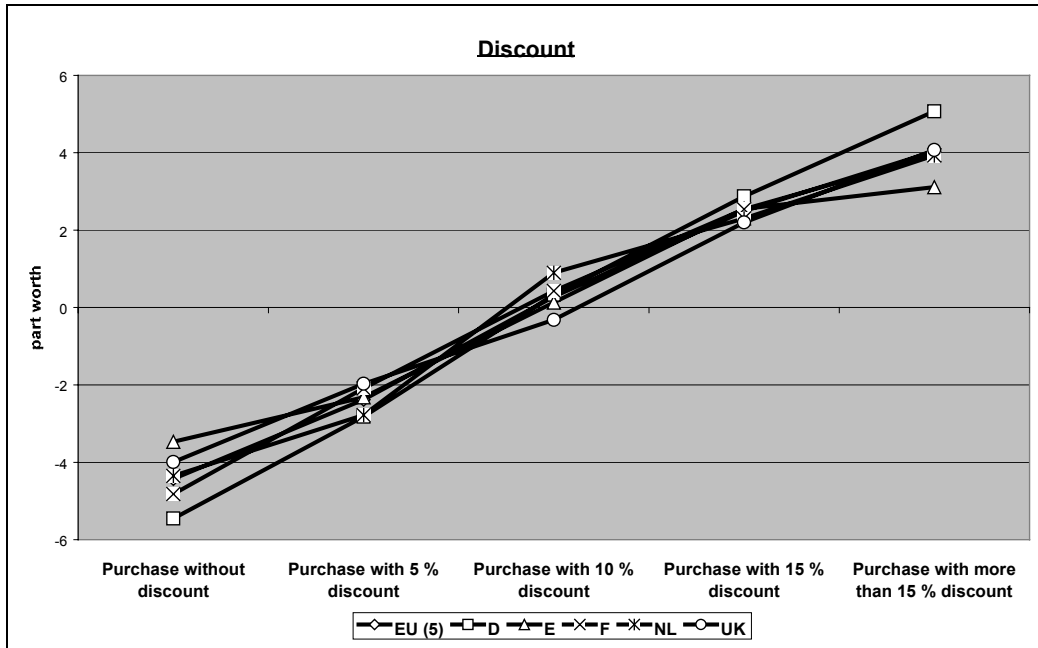
³² This does not mean that authorised workshops in fact offer better services than other service alternatives.



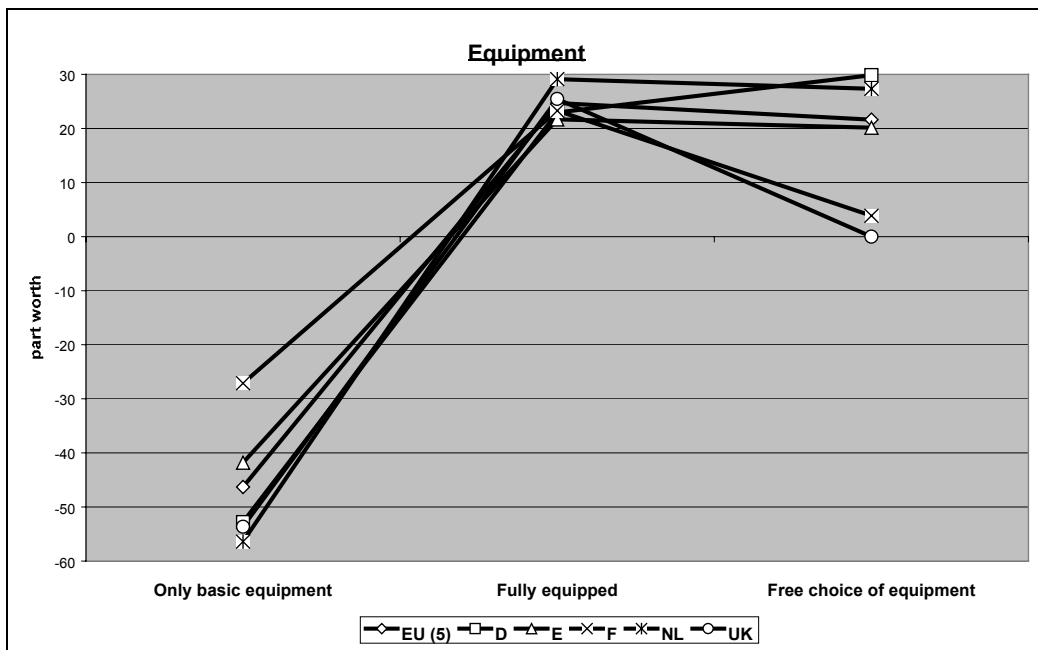
customer benefit than are other servicing alternatives (mostly more cost-effective and not brand-exclusive ones).



The benefit of discounts is obvious and does not need to be further differentiated. It is logical that the part worth increases with increasing discount. But due to the reasons mentioned above, the part worth is low. In Germany, the part worth of high discounts is the highest, in Spain the lowest.

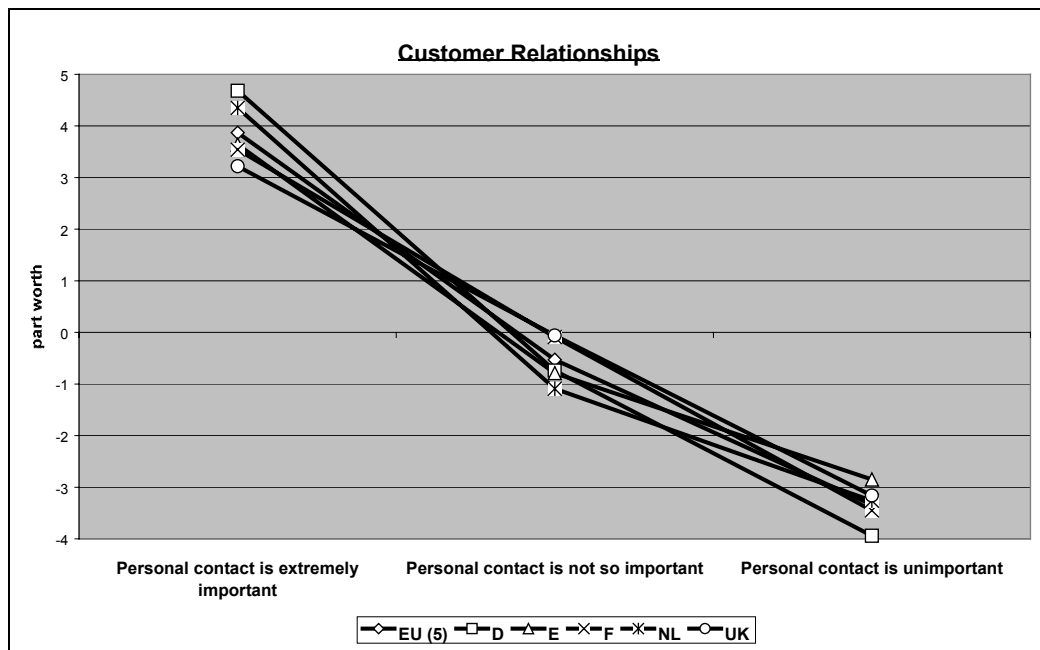


The alternatives studied in relation to the choice of equipment have shown that consumers prefer full equipment, slightly before the free choice of extras. The mere basic equipment (no options) leads to a negative benefit. People in France and England give more preference to fully equipped cars than the free choice of equipment; in Germany, the free choice of equipment is more important.

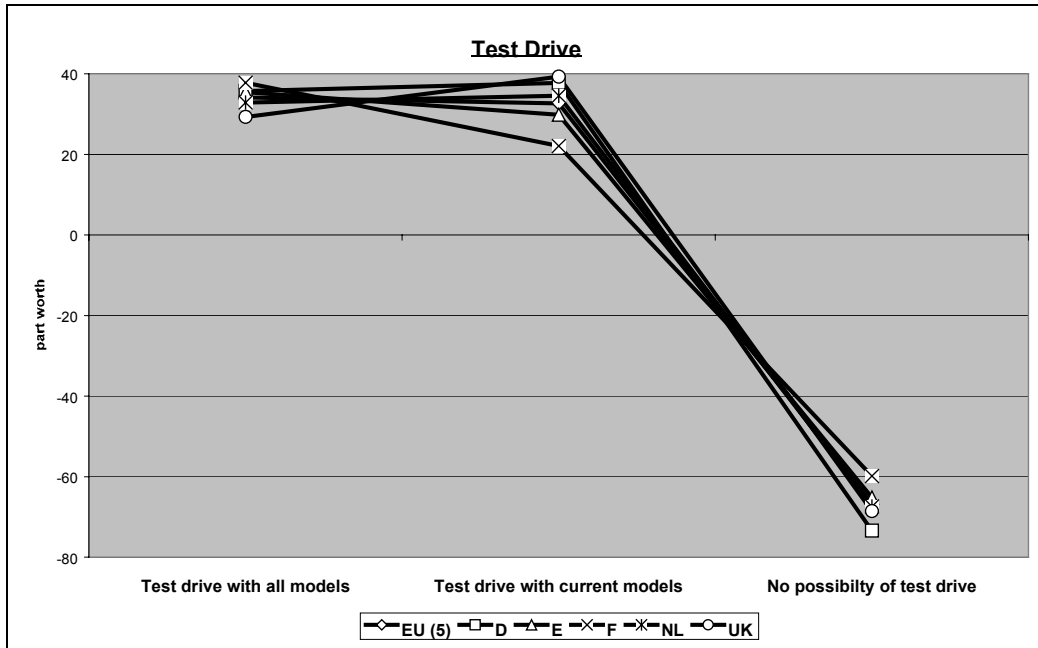




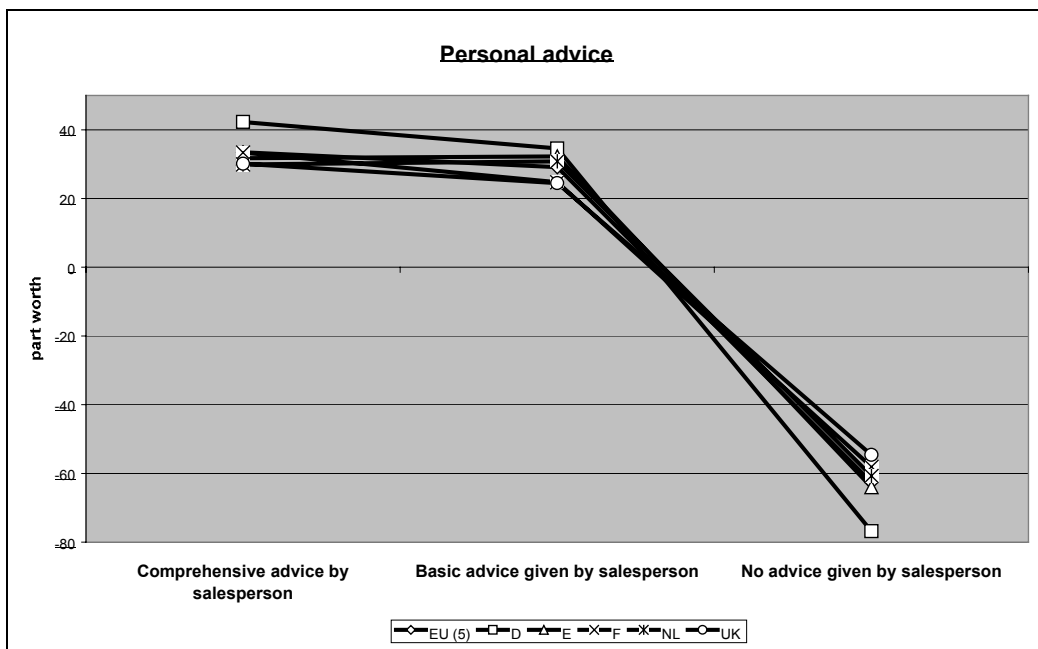
The delivery time attribute has a utility structure similar to that of the choice of equipment. While long delivery periods of several months have a negative part worth, delivery times of several weeks and within a week are rated approximately equally. This means that immediate delivery ex works is not necessarily expected. But there also is a considerable potential for warehouse sales.



The utility of good customer relations is in general evaluated as unimportant for the sale of a new car in the countries under review, compared to the other features examined. There are only minor differences between the individual countries.



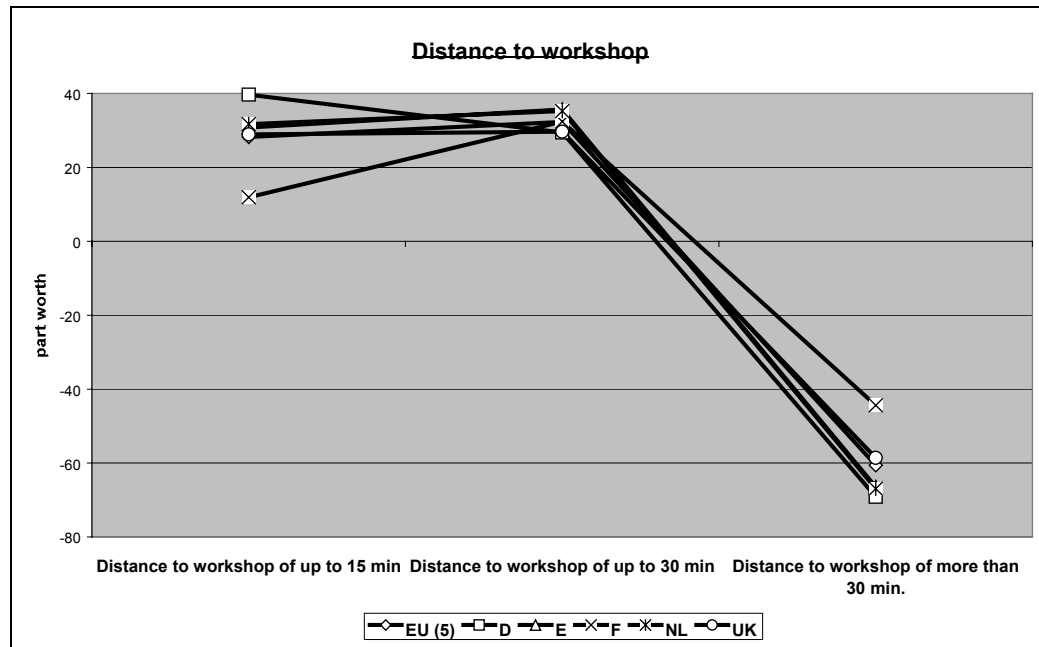
The utility of test drives is evaluated to be very positive. So, for dealers that do not offer such options, the part worth is strongly negative. But consumers do not expect to be able to test all models and vehicle types; the most common ones are enough.



Advice by the dealer's sales staff has a clear positive part worth. Basic advice has a part worth about as high as that of comprehensive advice. In our opinion, this is due to the varying degree of information of the purchaser of new cars. If a dealer does not provide any advice (pay and drive away), this is on principle not



accepted by the consumers (highly negative part worth). There are no major differences between the studied countries, although the part worth of comprehensive advice is the highest in Germany.



A distance (in time) to the workshop of up to 30 minutes by car is clearly preferred to longer travelling times. A shorter driving time of up to 15 minutes is only slightly more advantageous. When one considers that in urban centres 30 minutes by car can mean a distance of 10 km whereas in rural areas, depending on the traffic infrastructure, it can be 30 km, the high concentration of workshops that today exists for some brands is not necessary when preferences are considered. From the viewpoint of customer preferences many a workshop network shows clear potential for concentration. Conversely, a further compression of the servicing network, for example through alternative workshop forms (independent workshops, “fast-fit” repair chains), in already well-served regions would not improve the customer’s satisfaction.

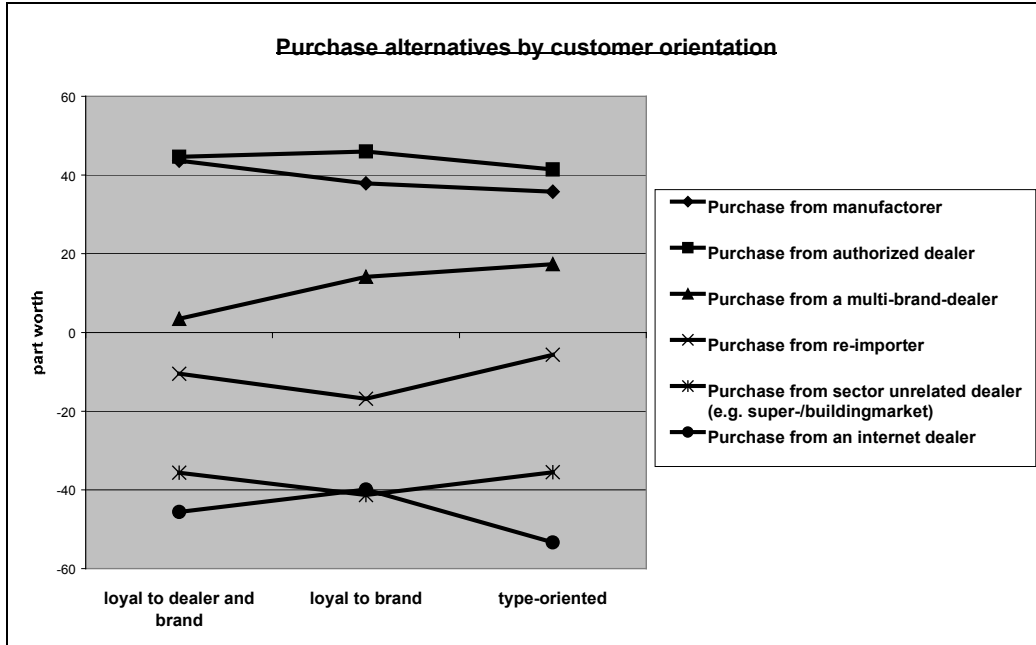
In total, it has turned out that the preference structure with respect to the purchasing channel and workshop decision when buying a new car is relatively homogenous in the European countries examined. In the following we will review to which degree the part worth depends upon and is influenced by demographic factors.

4.3.2.2 The influence of demographic factors on the part worth

The part worth for the basic is largely independent of the loyalty behaviour of consumers. The following graph shows that, although the significance of the part worth is different, the hierarchy among them is almost unchanged. The highest part worth in all cases goes to the franchise dealer.

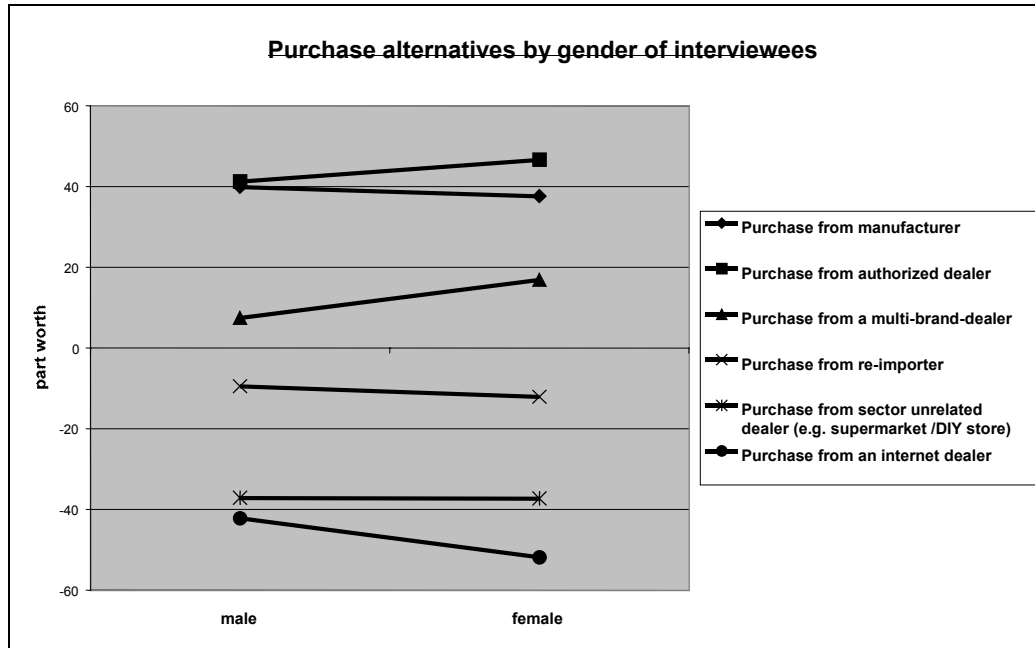


The loyalty attitude cannot be expected to have an essential influence on the market structure (see also market simulation).

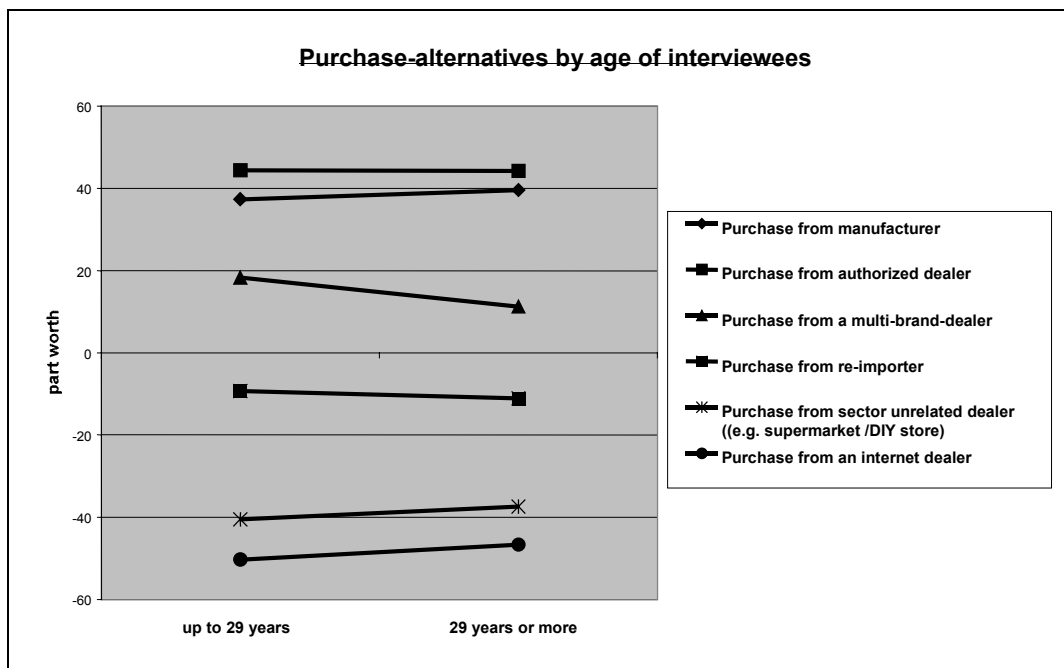


The part worth evaluation, when broken down by gender, differs mainly with respect to the multi-brand dealer, which women prefer more strongly, and the Internet, which women evaluate more negatively than men.

The preferences based on the gender of the interviewees do not upset the overall average. Therefore, the slightly higher proportion of women in the random sample did not have a negative effect on the study.



The part worth differs only slightly based on the age of the interviewee. The following trend, however, is noticeable: the part worth for buying a new car from an Internet dealer, a car-sector-unrelated dealer and directly from the manufacturer is lower for younger consumers than older ones.

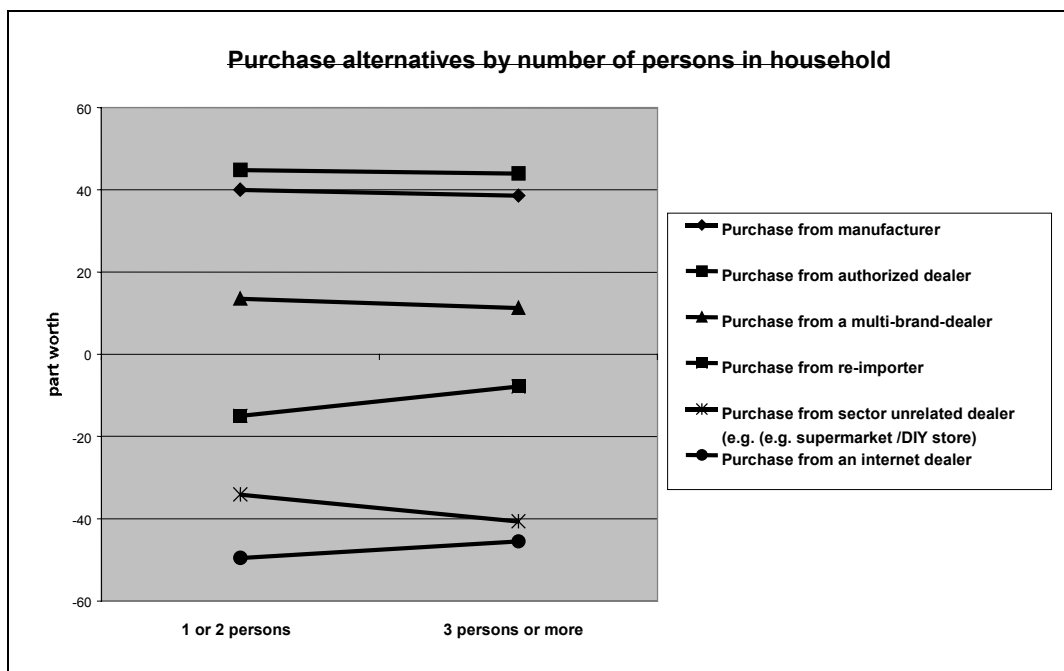


This indicates that the market opportunities for the new distribution channels are not a question of age, but of expected benefits. One can expect that for younger consumers the purchase of a new car is of a relatively higher importance than for older consumers, who typically have more experience buying and owning

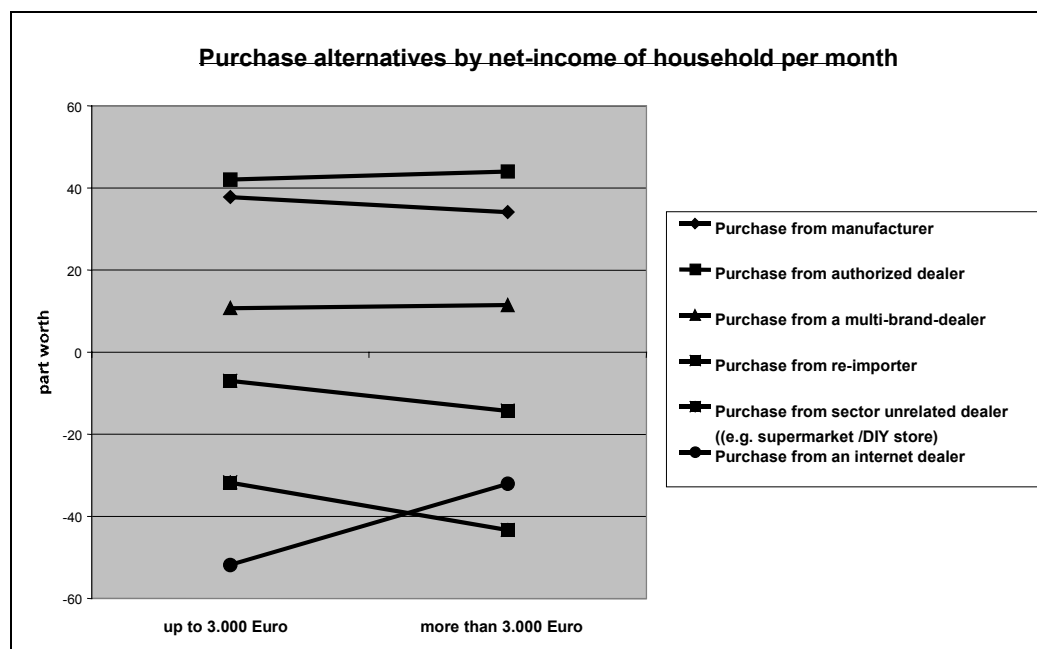
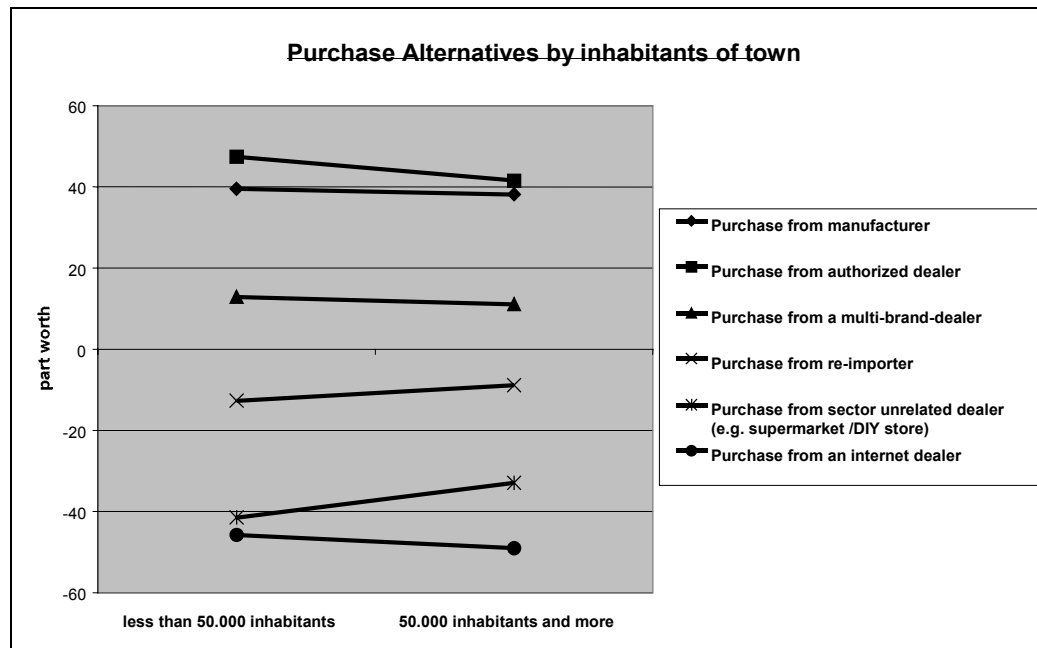


a new car and usually have a higher income. Thus the need for security is more pronounced in younger buyers of new cars, which lowers the benefit of new, unfamiliar distribution channels.

The size of the household has no significant effect on the part worth. The ranking remains unchanged, except that for larger households (3 persons or more), the part worth of re-importers is less negative than for small households. Small households evaluate players from other retail sectors a little more negatively.



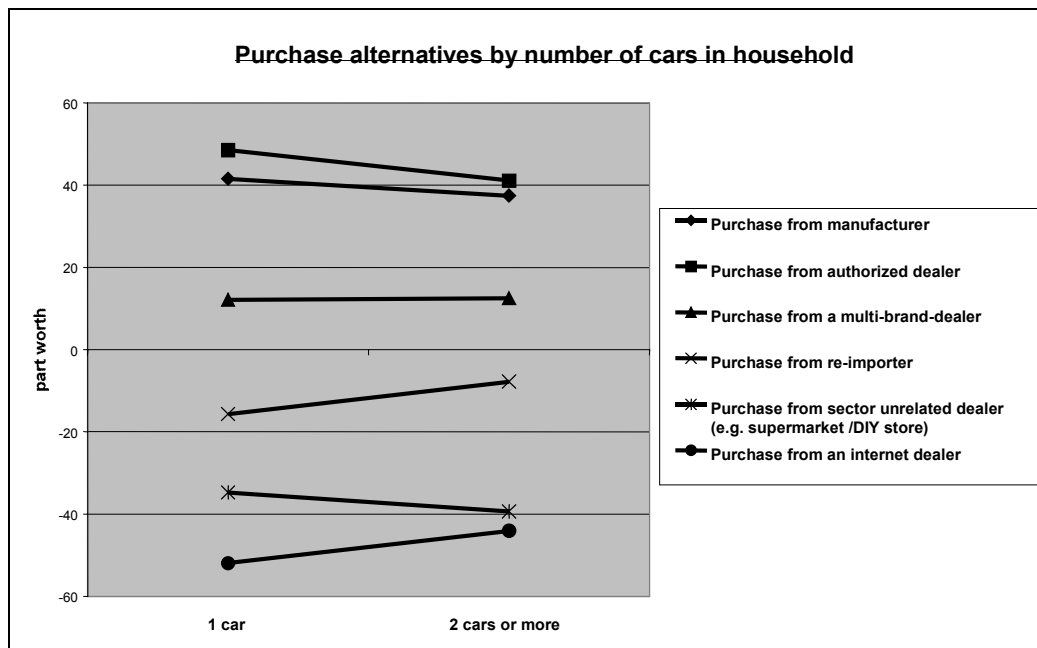
When differentiated according to the size of the town where the interviewees live, the part worth changes only slightly. The part worth shows a slight tendency for new car buyers in larger towns to evaluate the benefits of new distribution channels – with the exception of the Internet dealer – less negatively. The slightly less negative evaluation of the Internet dealer by interviewees in larger towns results, in our opinion, from the high concentration of dealers in towns, or conversely, from the fact that in rural areas there is less opportunity for comparisons.



The figure above shows that the part worth of purchase alternatives does not depend on the net-income of the households. Differences between the part worth of households with higher and lower net income are not relevant for the ranking and strength of preferences of purchase alternatives. Although the rankings of Internet-dealers and players from other retail sectors unrelated dealers are influenced by net-income their part worth is extremely negative. For all other purchase alternatives the structure of preferences is not different.



The number of cars in the household also only had a slight influence on the part worth. The ranking does not change depending on whether the household uses more or fewer cars. It is noticeable that the evaluation of the re-importer is nearly neutral in households with more than one car. It seems natural that the purchasing price would play a greater role here.



All in all the preference structures are remarkably stable. For the assessment of the following market simulation it is initially important that none of the demographic factors causes a shift within the ranking of the part worth. As a rule there were natural differences only in the absolute level of the part worth of an attribute level. These were so minor that their influence on the potential market success of the alternatives studied is insignificant and would not have led to completely different qualitative results.

In addition, the remaining attributes were not examined under the influence of demographic factors in this report. It is shown that only minor differences exist, which then compensate some possible effects of a shift in part worth for the sales alternatives. The following market simulation can therefore be carried out on the basis of this part worth.



5 Market simulation for various sales and servicing combinations

5.1 Preliminary remarks

Adaptive Conjoint Analysis makes it possible to carry out a market simulation on the advantages of the characteristics investigated. To be precise, the market shares are deduced from the preference structure. This can be done, as buying habits result from preferences. High precision as to the expected result can only be achieved if the interview design reflects the market well, i.e. reflects the market structures currently in existence in the EU in a valid way via the characteristics investigated. In this case, it is possible to draw reliable conclusions about possible changes in the market structure based on the preference structure analysed here, despite the limited size of the random sample and the low number of competitive parameters in this study. That is possible in every case where new forms can be characterised using the characteristics studied for existing sales and servicing alternatives.

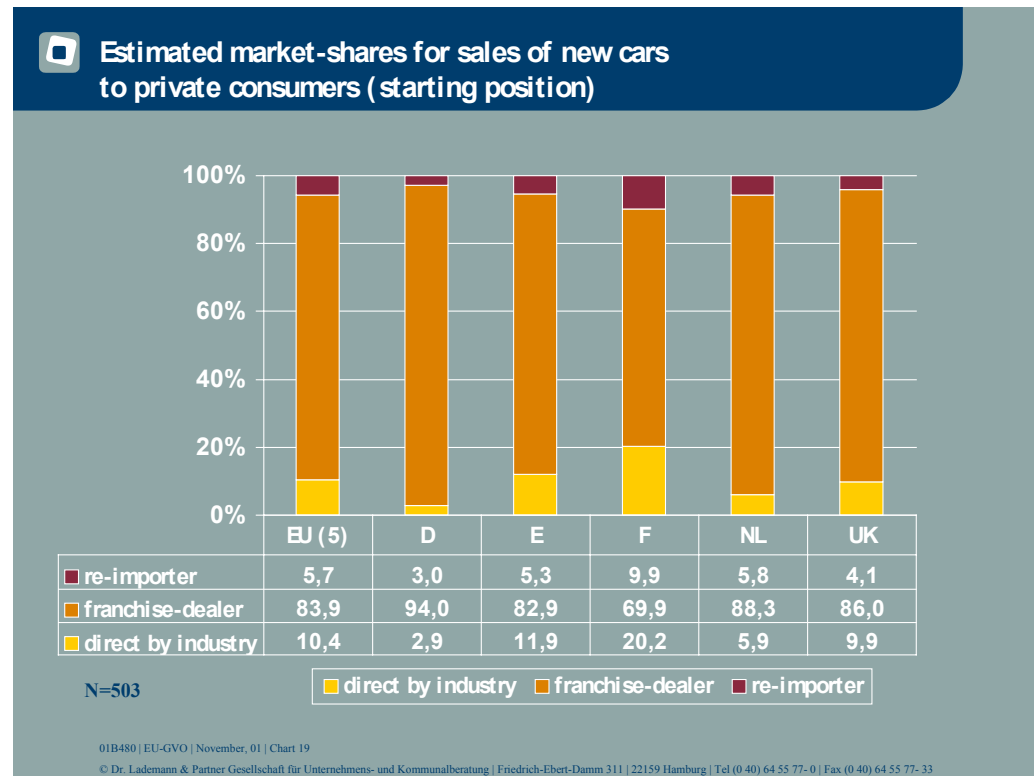
5.2 Market simulation for the current situation

For the market simulation for the current situation, the number of sales channels was reduced to three: franchise dealers, direct sales via branches, and re-importers. An independent Internet channel was not taken into consideration as this segment is so minimal that it cannot be illustrated in a sample of 100 persons questioned per country. In addition, the brand-independent Internet offers currently – due to the BER – mainly come from re-importers.

The simulation illustrates overall conditions within a country. It does not take into account, for example, possible regional variations or differences in for individual vehicle segments (e.g., luxury vehicles, sports cars) or individual dealers.

The market simulation calculates the following market shares (Cf. illustration):

- The franchise dealers have a total share of almost 84% of new vehicle sales to end customers; 70% are calculated for France, around 94% for Germany.
- The manufacturers' branches achieve a total market share of around 10%. For Germany and Netherlands, lower market shares were forecast, for Great Britain and Spain the average total, and for France around 20%.
- The re-importers make up a market share of almost 6% in total. For Germany, a lower share is estimated, for France a higher share.

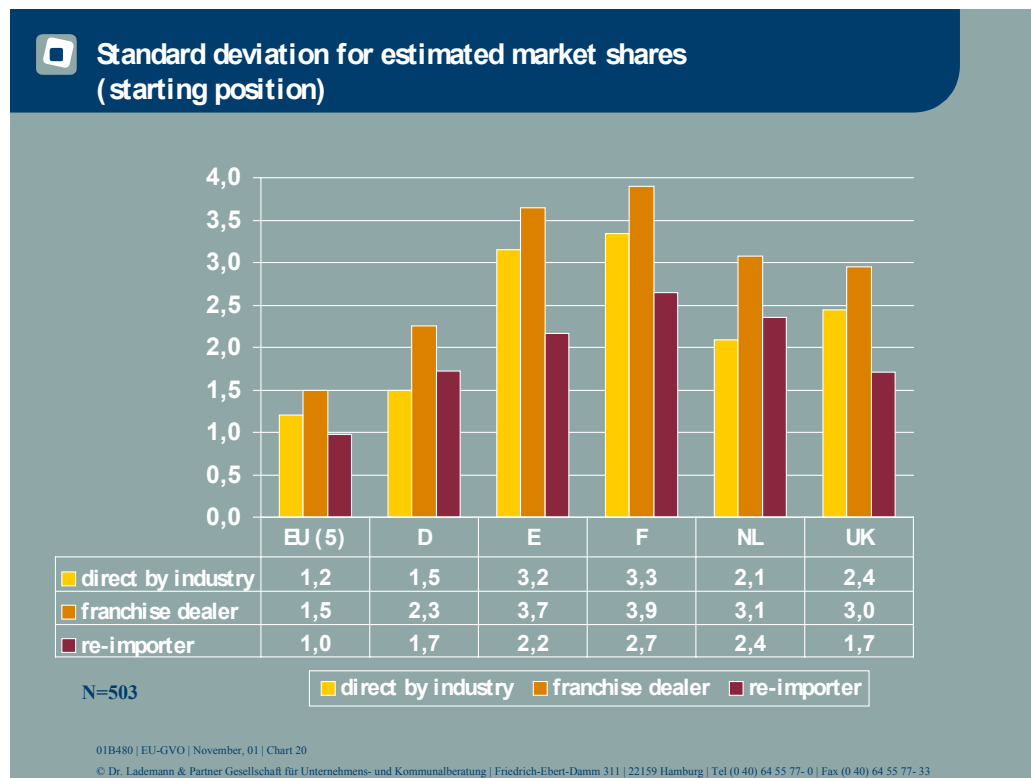


In the market simulation it must be taken into consideration that the total sample of 503 interviewees for all five countries gives more precise results than the individual country samples, in which only 100 persons were questioned.

The exactness of this simulation can be estimated using standard deviations that practically represent the fluctuation range for the respective market share. The following illustration shows that

- only minor fluctuations need to be taken into consideration for those market shares that lie under 1.5%. In accordance with this forecast, the actual market share for the franchise dealer will thus fluctuate between 82.4% and 85.5%.
- in individual states the exactness of the samples declines because they are based on fewer persons questioned. Nevertheless, even a standard deviation of up to four percent would not lead to any considerably different forecast.

The market simulation for the current situation provides an accurate portrayal of the basic pattern of distribution structures in Europe. It follows that the survey on which the study is based provided a valid basis for the market simulation.



5.3 The market opportunities for multi-brand dealers

5.3.1 Considerations

Multi-brand dealers (dealing in competing brands) practically do not exist today, due to the obligation for a separate showroom, separate sales staff and separate management. It is therefore of interest to consider the market opportunities for authorised multi-brand dealers who visibly offer the consumer new cars from competing brands under one roof.

For such multi-brand dealerships it would, due to the current earnings situation in new vehicle sales, be necessary to realise economies of scale in relation to companies, also on the level of individual brands. Besides, due to the manufacturers' sales strategies and consumer preferences, the multi-brand dealerships would also offer servicing. For this reason, the business model for a multi-brand dealership will lead to a kind of 'car centre concept'. Due to the considerable capital requirements, such large companies would probably settle in relatively few locations, preferably in high-population areas, but would not have a broader presence.³³ Unless he focuses on, for example, the luxury segment, a multi-brand dealer in the first in-

³³ It should be pointed out that the market share for multi-brand dealerships does not mean already existing brand bundling in sales resulting from mergers, but a new form of sales for competing brands made by competing manufacturers.

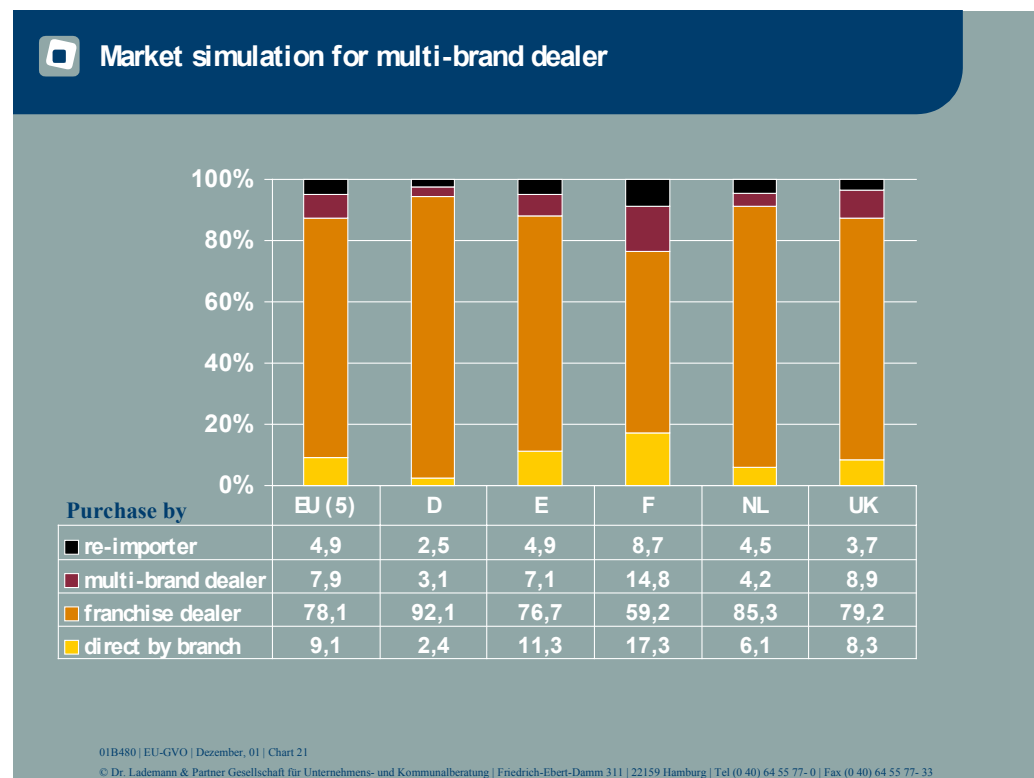


stance would compete on price. He could create some leeway here by concentrating on quick sellers (with short delivery times) or having a large amount of vehicles in stock (connected with a limited choice of equipment). It may be assumed that, as a large business, he will be less able to cultivate personal contact to his customers than a traditional, often family-run dealer.

5.3.2 Estimate of market shares

According to the following illustration, retaining qualitative selection would allow multi-brand dealerships entering the market to achieve a market share of almost 8%.

As the following illustration shows, “true” multi-brand dealers could expect a market share of almost 8% based on the above-mentioned assumption of focuses in sales policy. While a lower market share should be expected in Germany, Spain and Netherlands, a multi-brand dealership in France can expect a share of almost 15%.



The market simulation also shows that, as a result of increasingly intense competition, a market entry of such 'car centres' would, above all, be at the expense of the existing mono-make franchise dealers. The then increased competition on the dealership level due to very large 'car centres' would also slightly decrease the number of re-importers. Direct sales from the industry would only decrease minimally.



The market entry of multi-brand dealers would not change the structure of the distribution channels completely. The number of mono-brand franchise dealers on the market would decrease, benefiting multi-brand dealers. However, it is also to be expected that the arrival of “car centres” would speed up the concentration of the franchise dealer network. To what extent, however, the increased share for multi-brand dealers would lead to a change in the degree of network concentration or the structure of business sizes, cannot be portrayed in this market simulation.

5.4 Market opportunities for manufacturer-independent Internet dealers and car-sector-unrelated business

5.4.1 Considerations

Besides the existing distribution channels and the multi-brand dealers, further structural changes due to the entry of independent Internet dealers and car-sector-unrelated retailers on the market (a consequence of a largely doing without qualitative and quantitative selection) are to be examined. It is assumed that neither the independent Internet dealer nor the car-sector-unrelated retailer offers after-sales servicing. They would also not offer test drives or personal, qualified advice of any kind. Dealerships without a service workshop were exempted from the simulation as an improbable option since, at least in today's competition situation, it is the workshop that makes new vehicle sales, with its low or non-existent profit, profitable in the first place.³⁴

5.4.2 Estimate of market shares

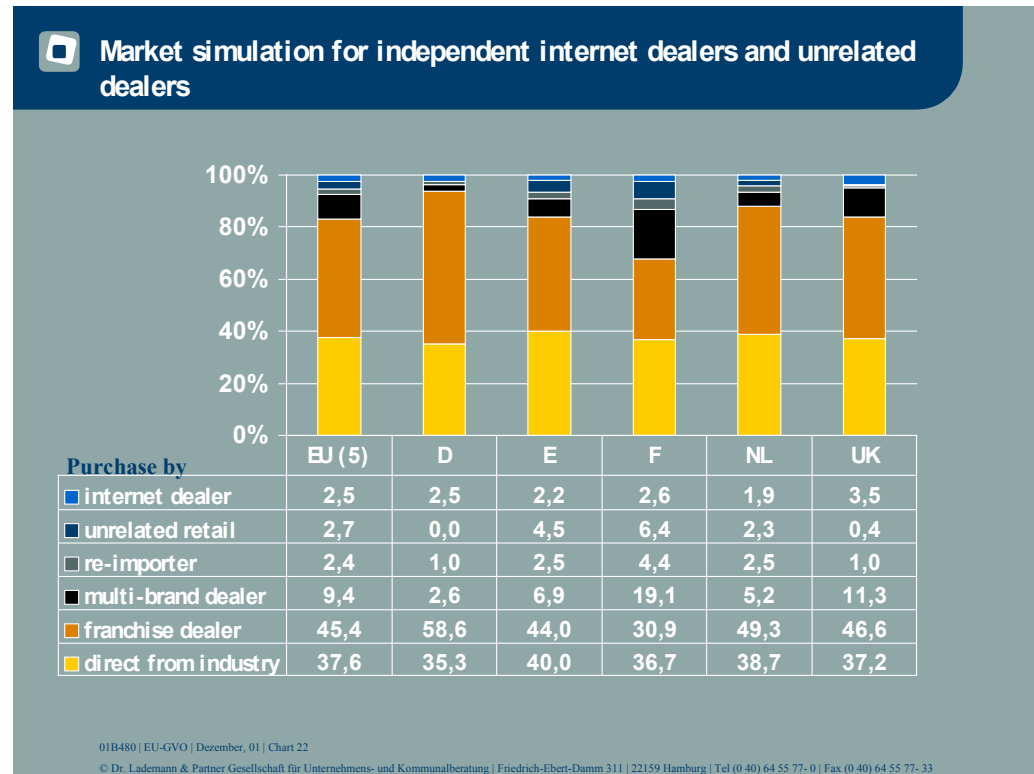
This sales model, based on the assumptions above, would lead to a considerable structural change in motor-vehicle distribution. It is notable, however, that the structural shifts would not initially affect the new, manufacturer-independent sales channels, which would not profit significantly in figures under the described first market simulation (5.3), if one ignores the approximately 10% market share for multi-brand dealers ('car centres'). The entry of new suppliers would rather lead to serious shifts in market share at the expense of franchise dealers and in favour of direct sales:

- For the manufacturers, this sales model offers the chance to increase direct sales through their own branches. Thus a market share of 35 to 40% in total, as well as in the individual states, would be attainable.
- The franchise dealers would be reduced to around 45%. They would be able to defend their positions best in Germany, with a share of approx. 59%, whereas their market share in France would dramatically plummet to approx. 30%.
- The increase in sales alternatives would strongly intensify the price competition and take away the basis of a livelihood, especially for numerous medium-sized franchise dealers. The gap caused by this

³⁴ Cf. Autopolis/2000, p. 24.



could be filled more easily by direct sales, as a result of the industry's influence on sales and servicing preferred by the consumers, than the new sales channels, assuming a lack of customer service, advice and test drives.



The consumer preferences in favour of manufacturers directly influencing the servicing sphere would lead to the independent Internet dealers and the players from other retail sectors having negligible market opportunities, unless they offer branch-exclusive customer service, personal advice and test drives. But it is highly doubtful whether and to what extent the market opportunities would increase if these distribution channels became more traditional by offering servicing, personal advice and test drives. Such a change in strategy would call into question the price and “pay and drive away” orientation of car-sector-unrelated retailers, as well as the lean selling structure of Internet-based sales. Therefore an analysis of the preferences shows these distribution channels to be insignificant; they will however speed up vertical integration strategies of car manufacturers, which will change the system fundamentally.

5.5 Market opportunities for sales channels if sales and servicing are separated

5.5.1 Considerations

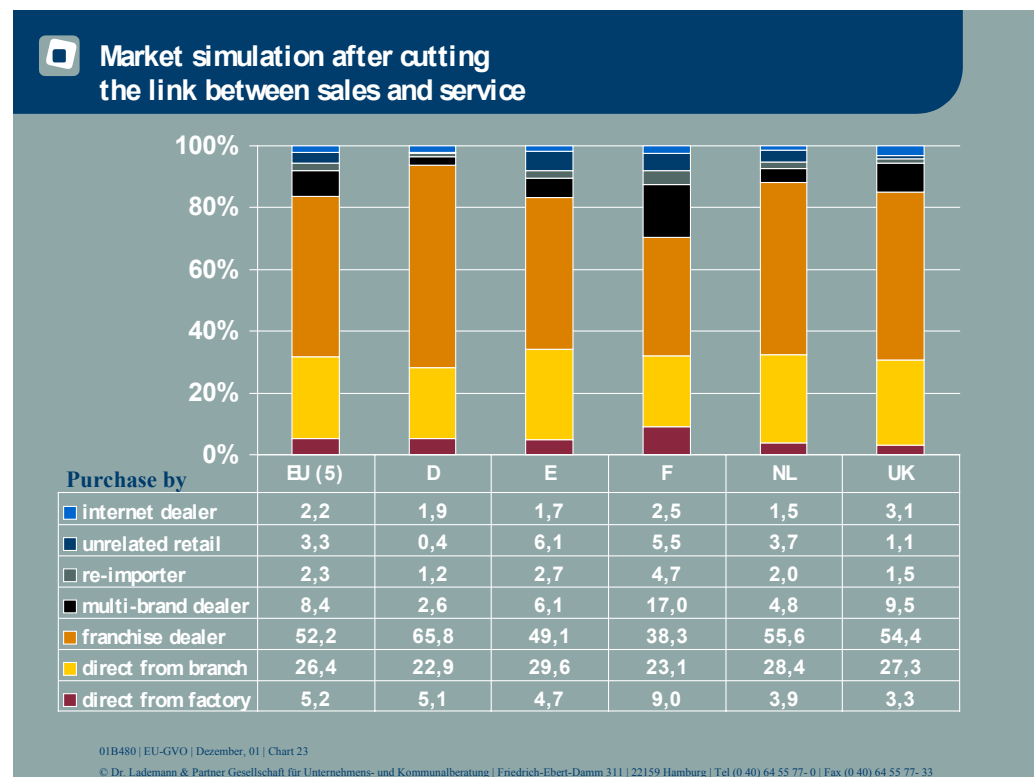
A complete separation of sales and servicing for new cars describes a sales scenario in which the sales and the servicing side would each be forced to exhaust their advantage gained through specialisation. Due to the fact that earnings for this new car retailing model are currently generally negative, breaking the sales-service link would, in our opinion, lead to further concentration in new car retailing. In addition to the previ-



ously studied distribution channels the potential of direct sales ex works was also taken into account, as it could become worthwhile if the functions were separated in this way. This sales scenario is also of interest because it would remove a major competitive disadvantage for the car-sector-unrelated retailers and the independent Internet dealers, arising from the demand that they offer servicing. Therefore the question arises as to whether, and to what extent, the market opportunities for such distribution channels improve compared to the previous market simulation. As for the competitive parameters, the alternatives would be likely to differ largely in personal advice, test drive possibilities, delivery times (car-sector-unrelated retail) and the choice of equipment.

5.5.2 Estimate of market shares

This market scenario would not lead to the expectation of a strengthening of sales channels that are independent of the manufacturers. The new sales channels would even have together a total market share of only approx. 16% and thus be in a slightly weaker position than in the previously-described market simulation (17%). This would mean that in this case also the manufacturers could significantly expand their market position by increasing direct sales. In the individual countries sales structures that are otherwise similar to those described in the previous sales model are to be expected.



If sales and servicing activities are completely separated, consumer preferences lead one to expect a significant increase in direct sales by the industry. Although the new distribution channels would lose a competitive disadvantage when compared to the franchise dealers and the manufacturers' branches, this



does not translate into a higher market share. In this case, consumer preferences favour a market structure in which the manufacturer is strongly expected to do his part.

5.6 Market opportunities for an open distribution system

5.6.1 Considerations

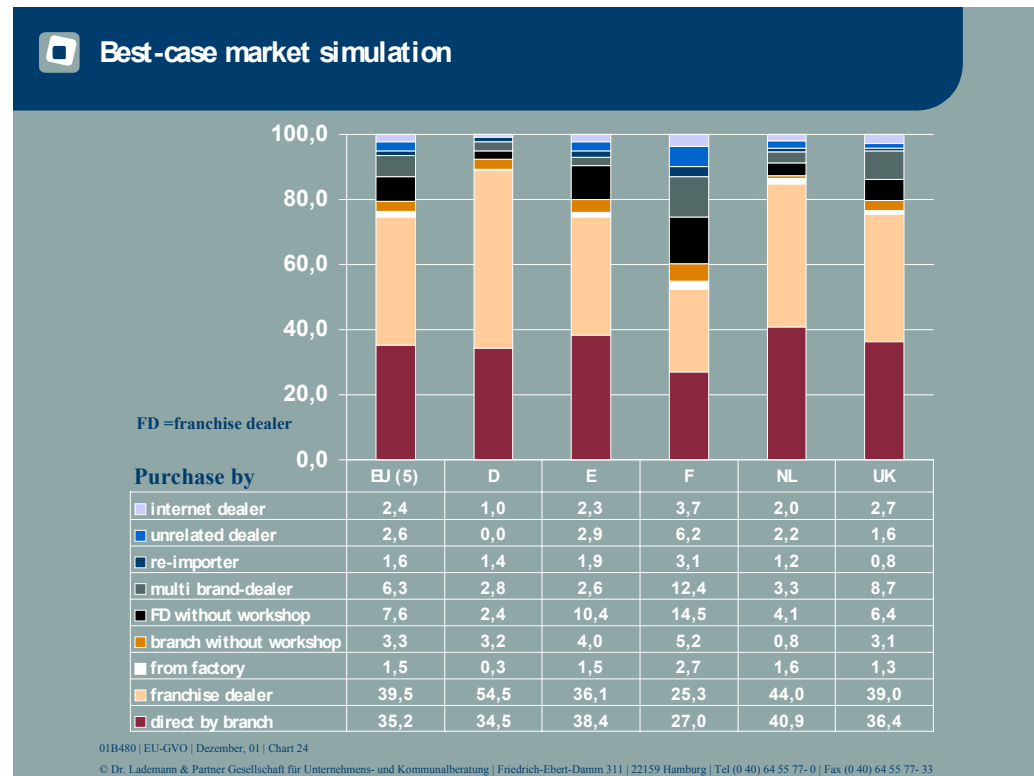
The final simulation looks at how new combinations of sales and servicing could develop within the framework of an open distribution system. In this respect, interactions between possible new distribution channels are included that were neglected in the previous market simulation. In this case it is possible that in addition to traditional and new distribution channels, certain franchise dealers and manufacturer-owned dealerships may operate as pure sales points with no after-sales servicing. The beginnings of this already exist as hub-and-spoke / satellite concepts (centralised sales, de-centralised servicing networks).

5.6.2 Estimate of market shares

The market simulation shows that the fragmentation of the distribution system again allows the manufacturers to expand their market shares. Although new sales channels outside the franchise dealership and direct sales system would not profit from the multiplicity of sales channels, this might throw up new opportunities within a brand-oriented system of distribution channels.

If the manufacturers supply franchise dealers without a workshop, these would however have to be relatively large 'brand centres', since they would not be able to take advantage of the calculated compensation from the service workshop. Such 'brand centres' would have relatively good prospects in, above all, France and Spain, where market shares of between 10 and 15% are forecast. Direct sales ex works had, overall, very low and negligible opportunities.

This sales model would force all dealers without a workshop to make their business profitable, so that they can be competitive without the earning power of a workshop. The consequences of an open sales and servicing scenario would therefore be a strong concentration process, especially in the fragmented and partly over-filled network of franchise dealers. Due to the strong consumer preference for a strong influence by manufacturers in sales and in after-sales servicing direct sales would be in the best position to fill the resulting gap.



The 'victim' of this development is the classical franchise dealer. Here, one can see that the consumer is not just interested in additional opportunities for comparison amongst the various brands, but quite obviously also in the buying experience and the choices within a brand. This is a clear signal that the classical, rather small car showroom has long lost its fascination, and that the customer would be grateful for new sales concepts, such as a 'brand centre'.



6 Interpretation of the results in light of the BER

6.1 Competition in new car sales

The question of how the consumer approaches the purchase of a new car offers up interesting conclusions for assessing the competition on the distribution and servicing level of the automotive industry (Cf. 3.2).

This question showed that about a third of all the interviewees falls into each of the following categories:

- loyal to the dealer
- loyal to the brand
- model-oriented

This result shows that inter-brand competition is mainly due to model-oriented consumers. This third would, in our opinion, suffice to force the dealers to act competitively, as they would otherwise lose a third of their sales.

The survey shows that intra-brand competition is due to about a third of new car buyers, who obviously seek out numerous car dealers selling one brand.³⁵ It cannot be assumed that the remaining third, which is dealer-loyal (brand and dealer are decided on before the purchase of a new car) is insignificant for competition. For they will only remain loyal to their brand and dealer as long as the price and servicing of their car and dealer suit them.

Overall the findings regarding brand and dealer loyalty indicate intensive competition between dealers and between manufacturers. For the brand-owners (industry) as well as the dealers selling these brands must, in their actions on the market, take into account that two-thirds of all consumers are prepared to seek out other possibilities.³⁶ This assessment is underlined by the brand-loyalty in new car purchases in Germany, which is quoted at 57%.³⁷ This also underlines the assessment regarding competition.

³⁵ This result corresponds to the findings of the Taylor-Nelson-Sofres Study, according to which two-thirds of new car buyers who are not brand-loyal seek out different brands and different dealers. Only 47% of brand-loyal consumers, on the other hand, go to dealers selling the same brand; Cf. Taylor-Nelson-Sofres. Publ., Attitudes towards the European Automotive Distribution System, Executive Summary Report, 2000, in the following Taylor-Nelson-Sofres/2000.

³⁶ In fact the purchasing process is a fairly complex process with many phases, which for most buyers, by the way, overlaps with the utilisation phase of the car owned before, and is shaped by this. Brand-loyalty (and probably also dealer-loyalty) wavers throughout the planned utilisation and buying- decision that follows: see Diez/2000.

³⁷ Cf. DAT/Veedol Report 1999, p. 41



The findings regarding the accepted distances from servicing providers, which are clearly surpassed by the distance travelled when buying a new car,³⁸ show that the consumer currently has a number of possibilities available, within one brand as well as among competing brands.

Functional competition is always present when the provider (here the automotive industry and trade) must take the competitors into consideration in his actions on the market, and is forced to take these into consideration. One can assume this to be the case from the analysis of preferences and in view of the mobility demonstrated by consumers, the limited brand and dealer loyalty as well as the market transparency with respect to discounts.³⁹

6.2 Market structure dynamics from the perspective of consumer preferences

The conjoint analysis of consumer preferences shows a tight, brand-exclusive connection between sales and after-sales servicing. The consumer generally anticipates the later utilisation phase at the time of buying a new car, or takes into account related experience. Already at the purchase of a new car the subject of after-sales servicing has the highest preference. It is also noticeable that the benefit of a sales and servicing alternative is valued higher if it is brand-specific. Conversely, customer benefits decrease the more sales and servicing are manufacturer-dependent or not brand-exclusive. In our opinion, this can be explained by the advantages of specialisation as opposed to 'all-brand suppliers' and is incidentally a phenomenon that can be seen in other consumer goods areas apart from the automotive sector.⁴⁰ New, stripped-down sales concepts without their own after-sales servicing have practically no chance (see

³⁸ So on average 52 minutes by car are accepted here; Cf. *Automobilverkauf/1999*, 20.

³⁹ On the other hand, particular market results (e.g. size of discounts, amount of re-imports, etc.) are not decisive for the competitive structure of a market. These do not allow conclusions on competition because they can be a consequence of, for example, overcapacity (discounts) or of tax systems (amount of re-imports) or simply of consumer preferences (a lack of acceptance of re-import offers). From anti-trust legislation, only those restrictions that come from companies are relevant (e.g. hindering re-importers or consumers buying directly abroad), not the consumer doing without other possibilities (e.g. regarding re-import providers). In addition, market results are not known in advance, because they are the result of market processes. For this reason it cannot be said, which market results reflect competitive restrictions and which reflect essential competition. Therefore, also with Article 81, Section 81 (EU treaty) one can only ask whether the market results follow from a competitive market structure characterised by latent possibilities; only then is competition taking place in new car sales – no matter what the market results are.

⁴⁰ For example, an ADAC comparison of customer service quality shows serious qualitative disadvantages to "fast-fit" repair chains in comparison to authorised workshops, Cf. issue 11/2001; the quality of the advice given in speciality stores is as a rule higher than in department stores, but often even better in manufacturer-run outlets, see e.g. o.V. *Outlet Malls in Consumer Reports 1998*, p. 20ff. Particularly with technically sophisticated products requiring explanation (e.g. in the areas of hifi, video, computers, software) it can be observed that retailers with a wide range of goods compensate for the lack of qualified advice with an aggressive price strategy.



Chapter 4, see below), as long as cars require qualified maintenance and repairs (and the mobility of many people depends on the reliability, safety and durability).

Based on this, the market simulations, from the perspective of preference analysis, can be summarised as follows:

- If sales alternatives that move away from the current pillars of sales – brand exclusivity, an integrated workshop, personal advice and test drives – enter the market, extensive market opportunities for direct sales by manufacturers would result.
- The separation of sales (trade) and servicing (craft) would lead to dramatic structural changes in distribution. The market shares lost by franchise dealers would again benefit the the manufacturers' direct sales systems.
- The market opportunities of pure sales channels would not rise above a niche function, as long as they operated in a system without servicing, personal advice and test drives. This is especially true for the manufacturer-independent Internet dealer and car-sector-unrelated retailers.
- From a competitive view, these structure scenarios would not fit consumer preferences better than the current situation. It could even lead to a lowering of quality in sales and servicing provision, if certain services (workshop, advice, test drives, even choice of equipment) are reduced or disappear due to a price war developing in an even more fragmented and intensively competitive market.

A radical change in today's sales and after-sales servicing structures due to the entry of sales alternatives without workshops, personal advice and test drive possibilities into the market would strengthen the influence of manufacturers in new car trade on the retail level through an increase on direct sales. Overall this would lead to market structures that fit consumer preferences less than today's.

6.3 Consumer expectations and consumer policy regarding new car purchases

Dr. Lademann & Partner asked a number of European and national consumer and automobile unions to comment on the following questions:

- Which preferences does the European consumer have regarding buying and servicing a new car? What role does the price have compared to other parameters such as safety, warranty, durability and quality?
- Do the present sales and servicing structures fit consumer preferences?
- Which market opportunities will be open to new sales alternatives, such as independent Internet dealers, multi-brand dealers with competing brands, players from other retail sectors?
- How would the market structure in car sales and servicing change if these new sales alternatives were widely spread?



Three automobile clubs⁴¹ and two consumer unions⁴² answered, leading to the following conclusions:

- The statements of the unions interviewed do not rely explicitly on concrete studies of consumer preferences. Assessments of consumer expectations and satisfaction are based on plausible considerations.

The consumer unions tend to lament the difficulties for consumers in getting the car of their choice at a lower price directly in foreign countries or via re-importers. They see the competition in the new car sales and servicing market overall as not being intensive enough.

The automobile clubs qualify the importance of price and point out that the purchase of a new car can hardly be compared to buying other consumer products due to the technical and financial risks; most consumers therefore accept a higher price for higher reliability and good customer service.

- The assessments given do not show the current sales system as conflicting with the majority of consumer preferences. One automobile club specifically pointed out that brand exclusivity has continued to be a major characteristic of distribution in the USA, although there is no regulated exclusive selling.

However, the statements of the consumer unions in particular show that the brand-exclusive link of sales and servicing is not considered 'natural'.⁴³

The consumer unions see market opportunities particularly for independent Internet dealers, not, however, for independent multi-brand dealers.

The automobile clubs are very reserved in their evaluations of the independent Internet trade and see 'a certain amount' of opportunity for multi-brand sales.

However, both automobile and consumer unions evaluate the chances for players from other retail sectors negatively.

- Changes in market structure depend largely on the future framework of sales regulations in the EU, according to the automobile clubs. In the case of a continued permitted qualitative selection a concentration process is expected for the dealer and workshop network. A thinning of the servicing network is viewed critically from the standpoint of customer satisfaction and guarantees.

The consumer associations have a view contrary to this: they expect a separation of sales and after-sales servicing to result in stronger competition and they do not consider continuing with selective distribution to be an appropriate option.

Overall it was discovered, that the opinions of the automobile clubs fit with the findings of this study better than those of the consumer unions. This applies to the assessment of the role of price in buying a new car

⁴¹ AC Automobile Club Fédération Française, ADAC Allgemeiner Deutscher Automobil-Club e.V., ANWB Koninklijke Nederlandse Toeristenverbond.

⁴² BEUC, The European Consumers' Organisation, Verbraucherzentrale Bundesverband e.V. (VZBV).

⁴³ This in summary of the position paper by the BEUC, The European Consumers' Organisation, BEUC Comments on the Commission's report on functioning of the Block Exemption regulation on car distribution, BEUC/X/129/2000, similarly the position of the ANWB Koninklijke Nederlandse Toeristenverbond in the hearings of the EU Commission on 13th/14th February 2001 in Brussels, also at the hearing Klasen, D.; BEUC/AgV, Statement hearing EU Commission to the BER car-sales, Statements by Edzes, L. and van Woerkum, both AIT Alliance Internationale de Tourisme & FIA Fé'dération Internationale de l'Automobile, Cf. with further sources and comments http://europa.eu.int/comm/competition/car_sector/distribution/.



as well as the market opportunities for new business models. Also the expected structural changes are assessed correctly.

6.4 Findings compared with selected studies

In the individual chapters attention has already been drawn to several instances where this study has similar findings to others. A comparative overview of the key results will conclude the report:

Intensity of competition

- The findings regarding brand and dealership loyalty (Section 4.2) listed in this report have been taken as an indirect indication of intense competition in new car sales.
- Taylor-Nelson-Sofres (TNS)⁴⁴ confirms this assessment in two ways. First, they asked consumers directly about their perception of the intensity of competition between dealerships. 80% assessed the competition as strong or very strong, 46% also noted a recent increase in the competitive intensity.⁴⁵
- Secondly, TNS came to results similar to this study's regarding the choice of dealer. According to TNS, barely 37% of all interviewees (4,000) remain loyal to their brand (re-purchasers),⁴⁶ while our study found that about 63% intend to buy the same brand again. This is no contradiction, as TNS investigated the actual, and this study the intended brand-loyalty.
- Besides, other studies show that the intended brand loyalty is subject to considerable variation during the utilisation and buying process; shortly after the purchase it is mostly about 90% and then it drops throughout the length of the utilisation period.⁴⁷ Nevertheless our findings regarding intended brand loyalty are confirmed by other reports.⁴⁸

The extent of brand loyalty may differ from study to study, but all the findings from the viewpoint of the private end consumer confirm a high intensity of intra-brand and inter-brand competition in new car sales.⁴⁹

Workshop orientation after buying a new car

⁴⁴ Cf. Taylor-Nelson-Sofres Automotive, Attitudes towards the European Automotive Distribution System, Executive Summary Report, November 2000, Taylor-Nelson-Sofres Automotive, Perception de la Distribution Automobile en Europe, Rapport Europe, Phase Quantitative, December 2000; cited in the following text as TNS, Summary or Rapport.

⁴⁵ Cf. TNS Summary, p.4.

⁴⁶ Cf. TNS Summary, p.6.

⁴⁷ Cf. Diez/2000, 64f.

⁴⁸ According to the DAT-Veedol Report only 57% of new car buyers in Germany remain loyal to their brand, Cf. Diez/2000, p.64; Auto-Motor-Sport reports similar data regarding brand loyalty, Die besten Autos 2001; among those consumers who have already made a decision, about 48% are potentially brand-loyal.

⁴⁹ However it is conceivable that the intensity of the competition could increase even more, e.g. through new sales alternatives or concentration of dealerships.



- According to the findings of this study at least 59% have their car serviced in an authorised workshop, and about 23% in an independent workshop that specialises in a particular brand (Section 4.2).
- According to the Autopolis Study about 58% of new car buyers (from D, F, E, I, UK) have their cars serviced in an authorised workshop and about 23% in a brand-specialised independent workshop.⁵⁰
- TNS found that 73% of consumers have their vehicle serviced in an authorised workshop during the warranty period; after the warranty expires the share is 59%.⁵¹

Our findings regarding the choice of workshop are confirmed by other studies.

Regarding the role price and discounts play in new car purchases

- In the analysis of preferences, the price loses significance in relation to the demand for quality in sales and after-sales servicing. This does not mean that the price is unimportant in an actual buying negotiation. Rather, the ACA analysis showed that consumers will do without a price reduction rather than having limited services in sales or servicing (e.g. no personal advice or test drive).
- In other studies price is mostly of major importance.⁵² This does not contradict the ACA results. Of course, the importance of the price and a high discount is evident. For the forming of preferences it is however crucial whether and to what extent the sales alternatives on the market differ.
- The small role played by price reductions in forming preferences regarding the choice of a dealership is therefore a strong indication for the fact that similar price reductions are granted practically everywhere. This is plausible considering the current distribution structure, the mobility of demand and the easily-created price transparency.

A dealership cannot gain any preference advantages in today's competitive situation using high discounts. The high significance of the price leads to ubiquitous discounts and other competitive instruments being more important in forming preferences.

The link-up of sales and servicing

- The analysis of preferences shows that consumers buying a new car evaluate an authorised workshop connected to the dealer as having the highest benefit, ahead of a manufacturer's own workshop and an independent workshop specialising in one brand. From independent multi-brand workshops and fast-fit repair chains to petrol stations the part worth decreases markedly (Section 4.3). From this it follows that there is a strong preference for brand-exclusive and manufacturer-influenced sales and servicing structures.
- According to the TNS study 71% of those surveyed agreed with the statement that the purchase of a new car is the beginning of the relationship to the linked workshop. 69% confirm the view that in the end it is the "workshop" and not the dealer that sells the new car.⁵³

⁵⁰ Cf. Autopolis/2000, p.16.

⁵¹ Cf. TNS Summary, p.9.

⁵² Cf. TNS Summary, p.7, according to which the price negotiation is central to the purchasing process for, on average, about 70% of all new car buyers.

⁵³ Cf. TNS Summary, p.10.



- Asked directly about the role of the manufacturer in sales and servicing, 96% of consumers agree that a careful choice of dealership by the manufacturer is important. In addition, 83% of those interviewed assume that servicing provided by an authorised workshop means more safety (as opposed to independent workshops).⁵⁴

Other studies also prove the consumers' strong preference for a brand-exclusive servicing network and a link-up of sales and servicing that is controlled by the manufacturer.

Distance to workshop

- According to this survey consumers prefer a servicing base that can be reached in up to 30 minutes by car (Cf. Section 4.3.2).
- Autopolis quotes a study that is differentiated according to distance. The roughly-estimated mean is about 7 to 7.5 miles (11 to 12 km), which corresponds to about 30 minutes by car in city centres and approx. 15 minutes in rural areas. However, only 9% of those interviewed are prepared to drive more than 18 miles (approx. 29 km).⁵⁵
- TNS, with a scale of minutes by car, has similar findings. Whilst 80% of consumers are prepared to drive up to 25 minutes to reach a workshop, only 15% of consumers are prepared to accept a drive of more than 25 minutes; approx. 5% accept a drive of over 45 minutes. From this we estimate the average time consumers are prepared to drive to be approx. 13 minutes.⁵⁶

This study's findings are supported by other studies on the distances consumers will travel to a chosen workshop. Consumers prefer a servicing network with distances by car of up to 30 minutes. Today's distances are about 15 minutes, which the conjoint analysis found to have the highest part worth.

Chances for alternative forms of distribution

- The conjoint analysis assesses the total market shares for manufacturer-independent multi-brand dealers, Internet dealers, re-importers and car-sector-unrelated retailers to be about 13% (Section 5).
- Similar prognoses are not made by other studies. TNS only lists the degree to which individual sales alternatives are favoured for the next car purchase:

<u>Sales alternatives</u>	<u>Favoured in % (approx.)</u>
- Franchise dealer	47%
- Direct sales	43%
- Multi-brand dealer	25%
- Re-importer	10%
- Direct purchase abroad	12%

⁵⁴ Cf. TNS Summary

⁵⁵ Cf. Autopolis/2000, p.47 cited from ICDP/Lex 98.

⁵⁶ Cf. TNS Rapport.



- Specialised independent dealer	15%
- Internet	7%
- <u>Car-sector-unrelated retail</u>	10%
Total	169%

- The degree to which a sales alternative is favoured does not reflect market share. So the consumer cannot weigh his approval of a sales form with respect to the advantages and disadvantages connected to it, nor make the decision between sales alternatives, which would be compelling in the decision when buying a new car. Also, in contrast to the conjoint market simulation, the competitive interdependencies between the sales alternatives offered are not taken into account. Interviewees answers to such questions regarding favourite options are usually inflated, because, in contrast to prospective real behaviour, there are no negative consequences.
- Regardless of the data's lack of validity for a market forecast, it corresponds to the ACA analysis market simulation on four points:
 - first, manufacturer-bound sales alternatives still dominate,
 - second, consumers obviously also look to manufacturers to provide them with more opportunities as regards direct sales,
 - finally, consumers also prefer the multi-brand dealer among the new sales alternatives, while
 - all the remaining new sales forms continue to be of secondary importance.

This market simulation is the only empirically sound way of forecasting market and competition scenarios in automobile sales of new cars.

Otherwise, the ACA analysis is confirmed by other current studies in its central statements and findings.

Hamburg, 20th December 2001

Dr. Rainer P. Lademann

Dr. Pia Schneider-Lademann

Dr. Lademann & Partner GmbH



ANNEXE

Questionnaire

1. Hello, we are conducting a survey on consumer expectations when purchasing or leasing a new private automobile and on the type and method of the workshop and repair services that are performed.

- Have you bought/leased a new automobile during the last five years or are you planning to purchase/lease a new automobile in the coming year?
- Is there someone in your household who has purchased/leased a new automobile or who wants to purchase/lease one – could I speak to him/her? (Possibly agree suitable time to call) (If the person cannot come to the phone or if no target person exists in the household, terminate questionnaire with Back and End and cancel interview)

2. Can you please tell me precisely whether the decision to purchase a new automobile occurred in the last five years or will occur within the next years?

- Within the next 5 years
- Within the next year

3. If you want to purchase or lease a new automobile, how do you proceed, respectively, how do you think you will proceed?

- I have previously selected a specific model from a manufacturer and make my purchase from my automobile dealer where I am a regular customer
- I have pre-selected a specific model from one manufacturer and then look for the dealer who has the best price
- I decide on a specific vehicle type and then compare various manufacturers

4. Where did you purchase the vehicle or where do you intend to purchase the vehicle?

- Purchase directly from manufacturer, i.e. from factory
- Purchase from an Internet dealer
- Purchase from an authorised or brand name dealer
- Purchase from a re-importer
- Purchase from an outlet that is not involved in the industry (supermarket / building mart)



5. Where do you have the vehicle serviced or repaired or where do you intend to have it serviced or repaired?

- Serviced by an authorised repair shop
- Serviced by a service station
- Serviced by a workshop for one brand
- Serviced by a workshop for several brands
- Serviced by a quick repair outlet

6. Could you now tell me a little about your preferences on learning about various possibilities of purchasing an automobile?

Conjoint-Part: The following attributes and levels of attributes were tested with ACA-algorithm:

I. SALES/MARKETING

- Purchased from manufacturer
- Purchased from authorised dealer
- Purchased from dealer who sell various brands
- Purchased from re-importer
- Purchased from sector unrelated dealer (e.g. supermarket / building mart)
- Purchased from an Internet dealer

II. WORKSHOP

- Service from authorised workshop
- Service from workshop for a certain brand
- Service from workshop for various brands
- Service by chain of quick repair outlets
- Service by service station
- No servicing



III. PRICES

- Purchase without discounts
- Purchase with 5% discount
- Purchase with 10% discount
- Purchase with 15% discount
- Purchase with more than 15% discount

IV. EQUIPMENT

- Only basic equipment
- Fully equipped
- Free choice of equipment

V. DELIVERY TIME

- Delivery within several months
- Delivery within several weeks
- Delivery within a week

VI. GOOD CUSTOMER RELATIONS

- Personal contact is extremely important
- Personal contact is not so important
- Personal contact is unimportant

VII. TEST DRIVE

- Test drive with all models
- Test drive with current models
- No access to test drive facilities



VIII. ADVICE

- Advised comprehensively by salesperson
- Basic advice given by salesperson
- No advice given by salesperson

IX. DISTANCE

- Distance to servicing of up to 15 min
- Distance to servicing of up to 30 min
- Distance to servicing of more than 30 min

7. May I ask you your age please?

Age in years:... years old?

8. How many people are living in your household?

9. How many automobiles do you have in your household?

10. What is the population of the town you live in?

- Less than 50,000 people
- Between 50,000 and 250,000 people
- 250,000 but less than 500,000 people
- 500,000 or more

11. How high is your household's monthly net income?

12. Thank you for the interview!

Gender of the questioned person:

- Male
- Female

