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# Monti and Market Dynamics: The Strategy of a National Car Importer

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**In 2002 Mario Monti, the European Competition Commissioner (in the period 1999–2004), concluded that there was not enough competition in the European market for the distribution of cars and spare parts. Consumers were not getting enough benefit from the internal European market. Now that deregulation has come into effect, the dynamics in the sales and servicing markets have increased. Due to these changes, market players in the brand distribution chain face a lot of uncertainty and competitive complexity. This article describes: 1) the key issues arising from Monti's regulation; 2) the effects on market dynamics; and 3) the main strategic implications for an importer of cars and parts in The Netherlands, particularly in its relationship with its dealers. Using the Theory of Dynamic Capabilities, this article shows that continuously building on new knowledge, the proactive development of new concepts in pilot environments, and building strong relationships with players in a broader automotive environment, are key success factors in maintaining the competitive advantage in highly dynamic markets.**


**Keywords: Highly dynamic markets, RBV, Monti, Deregulation in the European automative industry**

## Introduction

In October 2003 a new regulation for the automotive industry came into effect, regulation (CEC) No. 1400/2002, which set out a new framework for selling and servicing cars in the European Union (EU). Mario Monti, European Competition Commissioner of the European Commission[1], was the architect of this regulation, which was designed to increase competition in the EU and to bring tangible benefits for European consumers (CEC, 2002a: 3). To achieve this goal, rules were formulated to create greater independence for dealers.

Since 1985[2] the retail sale of cars and the provision of servicing was approved by law through a distribution system, which had led to a closed and protected brand-exclusive environment for selling cars and servicing them within the EU. In this environment, manufactures and national importers dominated the game. Due to a production overcapacity of 30% (CEC, 2000: 111) monumental pressure was being placed on retailers to achieve sales objectives, preferably coupled with high consumer-satisfaction rates. This pressure resulted in very low dealer profit margins, around 0.5% (Funk, 2002). As a consequence, 80% of all dealers were financially tied to the manufacturer or importer, because they could not finance their operations with regular financial institutions (Creutzig, 2003)[3]. This further increased the power of importers and manufacturers, and increased dealers' dependence on them.

To survive in a competitive field, every company relies on resources that are available in its environment. To maintain access to these resources, two forces drive the behaviour of a company: the need to reduce uncertainty; and the need to retain autonomy (Johansson, 2002:397). Translated to the automotive industry, Monti's new law brings marked uncertainty for the national car importers[4], because the autonomy of their business is no longer guaranteed. Dealers are free to order parts from other suppliers, and, at the same time, national importers and manufacturers are no longer the sole parties that can control the development of the sales and servicing network. Consequently, the main resources of an automotive importer, its dealers, are no longer automatically affiliated to it.

The main purpose of this article is to answer the question of how a national importer can extract advantage from this new regulation, and not see it as only a threat. Redefining the relationship with the dealers is a major opportunity to gain competitive advantage. To find out where this relationship can be improved, it is necessary to identify the key success factors for a national importer.

This article is based on research carried out on the development of European competition policy since 1985, the distribution of cars, and, in particular, the new regulation, 1400/2002. This research included studying branch documents, articles, and other research papers. In-depth interviews with eight managers from an importer and dealers in The Netherlands were conducted, and Dutch and German conferences about the subject were attended.

Our analysis allows us to draw four conclusions for managers that will be explained further in this paper:

1. To gain competitive advantage in future, a car importer must move away from a top-down strategy with retailers, to a horizontal, co-operative strategy;
2. Besides providing added value to the manufacturer, car importers must change their business processes to help dealers build customer loyalty to its brands;
3. Due to an unclear market structure, market players' shifting strategies, and changing market boundaries, an importer must proactively develop new business models for the distribution and servicing of cars;
4. Due to increased market dynamics and a weaker natural link with retailers, if an importer is to maintain an excellent position in the market, it must build strong relationships with lease companies and multi-brand dealers.

## Dynamic Capabilities

These conclusions for managers are the result of an analysis based on the Resource-Based View of the company (RBV). More specifically, we will use the Theory of Dynamic Capabilities (Teece and Pisano, 1994; Eisenhardt and Martin, 2000), which subscribes to the RBV school of thought. The RBV is an influential theoretical framework for understanding how competitive advantage is achieved, and how that advantage can be sustained over time (Barney, 1991; Prahalad and Hamel, 1990; Teece and Pisano, 1994; Eisenhardt and Martin, 2000). This perspective, referred to as 'inside out', focuses on the internal organisation of the company, and it is complementary to the traditional emphasis of strategy on Industrial Organization and Strategic Positioning (Porter, 1990). Barney (1991) states that the basis of a company's competitive advantage is its resources that are valuable, rare, non-imitable and non-substitutable. The Theory of Dynamic Capabilities extended this theory by focusing on organisational processes, positions and strategic paths from the past (Teece and Pisano, 1994). Winners in the global marketplace are companies that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively co-ordinate and redeploy internal and external competencies (Teece and Pisano, 1994:537). Dynamic capabilities can therefore be defined as the company management's ability to adapt processes, resources and relationships to the changing environment. Because of the non-tradability of 'soft' assets like values, culture and organisational experience, these capabilities generally cannot be bought or assembled through markets; they must be built over a period of time (Teece and Pisano, 1994:553).

Following Eisenhardt and Martin (2000:1110) an important distinction can be made in the way companies must react to the market dynamism between moderately dynamic markets and highly dynamic markets. Moderately dynamic markets are markets where change occurs frequently, it is linear and predictable. Industry structures are relatively stable, market boundaries are clear, and players are well known (Eisenhardt and Martin, 2000:1110). Contrast this with highly dynamic markets, in which change is non-linear and less predictable. Market boundaries are blurred, successful business models are unclear, and the strategy of market players is ambiguous and shifting. The overall industry structure is unclear. Scenarios cannot be modelled because it is not possible to specify the future states of the market (Eisenhardt and Martin, 2000:1111). Eisenhardt and Martin (2000:1111) state that the level of dynamism in the market is what determines the nature of dynamic capabilities. In moderately dynamic markets effective dynamic capabilities rely heavily on existing knowledge. Managers analyse situations in the context of their existing, tacit knowledge and they plan and organise their activities in a relatively orderly fashion, from analysis to implementation. Describing processes and defining guidelines are elements that are indicative of dynamic capabilities in moderately dynamic markets.

In highly dynamic markets, dynamic capabilities do not rely on existing knowledge, but much more on