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Testing Transaction Cost Theory via the Automotive Agency Distribution Model

Case Study of Penske Automotive Italy

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1. Abstract

With a particular emphasis on the automotive agency distribution model (ADM), this study analyses transaction cost dynamics in the automobile industry. Primary data were gathered through interviews with top and middle management of an international car dealership corporation's Italian affiliate, Penske Automotive Italy, using a qualitative, theory-testing methodology. The research design allows for a thorough investigation of the factors that affect transaction costs, contrasting empirical results with those predicted by transaction cost theory.

The primary findings show regions where the theoretical and empirical frameworks match and disagree. The areas of match, such as coordination costs and issues, intellectual property right (IPR) protection, and transaction-specific investments (TSIs), highlight the applicability of transaction cost theory in the context of the automobile agency distribution model. The limits of transaction cost theory in representing the complexity of these drivers within the automobile industry are highlighted by areas of mismatch, such as environmental uncertainty, information gathering, and monitoring owing to opportunistic behaviour.

The automotive sector and transaction cost theory are both affected by these discoveries. The study offers insights into the efficient management of transaction costs within the automobile agency distribution model, which aids in the understanding and application of transaction cost theory (TCT). The study also highlights methods for improving coordination, IPR protection, and transaction-specific investments, with implications for industry practitioners and policymakers.

In conclusion, by offering a thorough examination of transaction cost dynamics within the automotive agency distribution model, this master's thesis makes contributions to the fields of transaction cost theory and the automotive industry. The results identify areas for additional study and improvement while showing the applicability of transaction cost theory. Future quantitative studies, comparative analyses, longitudinal studies, cross-cultural analyses, and in-depth case studies are advised by the study in order to advance our knowledge of transaction cost dynamics in the automobile sector and enhance transaction cost management.

Key words: agency distribution model, transaction cost theory, automotive, business case, franchising, qualitative, empirical, interview.

2. Introduction

2.1. Push-and-pull factors of the ADM

The adoption of the incoming ADM, by several prominent automotive OEMs (Original Equipment Manufacturers) is expected to exert a substantial influence on management practises and retail strategies in the foreseeable future. The proposed model entails the utilisation of autonomous agents for the purpose of vending and maintaining automobiles, as opposed to the present dealership paradigm.

The anticipated outcome of this transition is a rise in agent competition and enhancement of the overall customer experience (Mantellini, 2023). Moreover, the utilisation of autonomous agents is expected to result in a more effective distribution of resources, given that agents will be motivated to innovate and enhance their productivity.

From the perspective of TCT, the newly introduced ADM can be interpreted as a means of mitigating the expenses linked to the coordination and supervision of dealership-based operations (Alberti, 2023), as well as a repositioning tool – e.g., Mercedes-Benz, which is redirecting materials and resources to top-tier models, cutting production (Longo, 2023). The utilisation of autonomous agents enables the automobile manufacturer to allocate a significant portion of the duties and expenses linked to vehicle trade and maintenance to the agents themselves, thereby enabling the OEM to concentrate on its fundamental strengths of vehicle design and production.

In general, it is expected that the novel model will have a noteworthy impact on the automotive sector with regards to its governance, given that it will heighten competition and efficacy, while simultaneously diminishing transaction expenses.

The common dealership or franchising model – also referred to as “DDM”, i.e., dealership distribution model – in the automotive sector entails the presence of company-owned dealership contracts that allow external partners to undertake the task of vending and maintaining the automaker's stock. This model affords the automaker greater authority over subsequent operations and enables the establishment of standards and directives for the dealership to adhere to (Ravaglia, 2023).

The agency distribution model exhibits notable distinctions from the extant dealership or franchising model. A significant contrast lies in the potential of the ADM to reducing competition among agents of the same brand, thereby resulting in a more optimal distribution

of resources (Capgemini Invent, 2020). This can be attributed to the heightened motivation of agents to innovate and enhance their performance. The enhancement of customer experience is a probable outcome of this development (Longo, 2023). However, downstream agents, namely extant dealerships and automotive sales corporations, must substantially revise their approach to accommodate the market and thereby furnish their customers with distinctive experiences (Alberti, 2023).

In comparison to the conventional dealership or franchising model, the ADM exhibits a distinct variance in the degree of independence and authority that autonomous agents possess with regards to the sales and service process, the level of competition and efficacy among agents, and the minimization of transactional expenses for the automaker (Roland Berger, 2021).

2.3. Relevance of the study

The significance of investigating the impact of the agency distribution model on global automotive governance can be attributed to various scientific factors, including but not limited to economic, business, consumer, regulatory, international trade, and competition or market-based aspects.

At the global level, the ADM possesses the potential to exert a substantial influence on the worldwide economy. Scholars can investigate the impact of this model on international governance by scrutinising its economic effects on the automotive sector and the nations in which it is implemented. The regulatory framework that pertains to the automotive sector, and the governmental supervision thereof through the ADM, are of significant importance. Additionally, the alterations in the cross-border movement of good and services within this context are also noteworthy. The aforementioned factors collectively contribute to the dispersion of market power among firms (Pepall, Richards, & Norman, 2014), rendering them of particular significance to scholars in the field of Industrial Organisation.

Secondly, at a corporate level, researchers should conduct an in-depth analysis of the theme by examining the business strategies and operations of automotive companies that have implemented the model, such as BMW Group and Daimler, and comparing them to those of companies that have not implemented the model. This scheme has its origins in consumer behaviour, as it allows for a comparison of the customer experience between those who have utilised the ADM for purchasing and servicing vehicles and those who have utilised the

traditional DDM.

2.4. Research question and purposes

The potential effects of the forthcoming agency sales within the automotive sector on car dealerships are expected to exhibit considerable heterogeneity contingent upon the particularities of the model and the manner in which it is executed. Broadly speaking, this model is likely to result in a reduction in the authority and influence that conventional automobile dealerships wield in relation to the dissemination and vending of automobiles. This has the potential to result in diminished profits for automobile dealerships, as well as a transformation in their operational practises and cost structures (Mantellini, 2023). Nevertheless, this may also present unique prospects for the latter to foster innovation and discover innovative approaches to contend in the market, thereby offsetting the aforementioned decline in competitiveness.

The potential effects on automobile dealerships rely upon the intricacies of the agency distribution framework and its execution. In light of this transformative and unprecedented shift, dealer corporations can prepare themselves by broadening their value proposition in order to differentiate themselves from their competitors.

Penske Automotive Italy, part of Penske Automotive Group, is a prominent dealership holding in the Italian automotive market and has initiated transition programs to agency sales for the MINI, BMW, and Mercedes-Benz brands. The corporation is striving to elevate the customer experience to a level beyond that of comparable shopping experiences, through the implementation of a BX (Business of Experience) strategy that seeks to absolutize the concept of customer experience. A comprehensive examination of this business scenario enables a deeper understanding of the increasing complexity of strategic decision-making in this industry and the diversity of consumer purchasing patterns.

This thesis aims to examine the dynamics of the automotive market in light of the reflections provided, with the ultimate goal of addressing a research question.

Does the empirical framework of the automotive agency distribution model provide validation for transaction cost theory?

This research question is answered by conducting a theory-testing, pattern matching, qualitative research based on interviewing Penske Automotive Italy's top and middle

management on the transaction cost modifications of automotive OEMs and dealers' businesses. Further, secondary data are extracted analytical insights from scholarly articles on automotive franchising and consumer behaviour, in addition to comprehensive literature on the transaction cost framework.

Ultimately, this research aims to make significant contributions to the existing academic knowledge in this field and provide practitioners with insights into the advantages and disadvantages of this major industrial transition, drawing on reputable sources. In particular, the research objective of this study is to:

- Investigate the dynamics of transaction costs in the distribution model of automotive agencies, juxtaposing the observed outcomes with the anticipated results of the transaction cost theory;
- Discern the congruent and incongruent aspects between the empirical and theoretical frameworks;
- Analyse the factors that influence transaction costs in the automotive agency distribution model – these factors include coordination costs and issues, safeguarding of intellectual property rights (IPR), transaction-specific investments (TSIs), environmental uncertainty, information acquisition, and monitoring to mitigate opportunistic behaviour;
- Evaluate the ramifications of the research results on transaction cost theory as it pertains to the automotive sector.
- Offer pragmatic insights and suggestions for improving the administration of transaction costs in the context of the automotive agency distribution model.
- Identify the limitations of transaction cost theory in the automotive industry and propose potential avenues for future research.

3. Literature

3.1. Transaction Cost Theory (TCT)

The theory of transaction costs is a fundamental framework in the field of economics that elucidates the reasons for the existence and operational mechanisms of firms. The fundamental focus of transaction cost theory pertains to the expenses that emerge when corporations participate in dealings with external entities, including suppliers, customers, and other corporations. The expenses associated with a transaction may comprise search, negotiation, monitoring, and enforcement costs, which may fluctuate based on the transaction's features andthe involved parties.

Transaction cost theory is a theoretical framework that seeks to explain the costs involved in conducting economic transactions. Developed by Ronald Coase in the mid-twentieth century, transaction cost theory suggests that the costs of conducting transactions are influenced by factors such as the complexity of the transaction, the uncertainty involved, and the amount of information available to the parties involved (Coase, 1937).

Ronald Coase, an early innovator in transaction cost theory, authored a seminal paper in 1937entitled "The Nature of the Firm." Coase posited in his paper that the raison d'être of firms is to mitigate transaction costs, which are the expenses incurred in utilising the market to organiseeconomic activity. Coase's theory posits that transaction costs can be minimised by firms through the implementation of internal organisation of economic activity, utilising hierarchies, and managerial control to effectively coordinate the actions of individuals and departments within the firm (Coase, 1937).

According to transaction cost theory, the costs of conducting economic transactions include not only the direct costs of goods and services exchanged but also the costs associated with negotiating, monitoring, and enforcing the terms of the transaction (Williamson, 1989). These costs, referred to as transaction costs, can include search costs, bargaining costs, and policing and enforcement costs. Search costs refer to the costs of finding a suitable trading partner, negotiating the terms of the transaction, and obtaining the necessary information about the goods or services being exchanged. Bargaining costs refer to the costs associated with negotiating the terms of the transaction, including the time and effort required to reach an agreement. Policing and enforcement costs refer to the costs associated with monitoring and enforcing the terms of the transaction, including the costs of legal action in the event of a dispute (Williamson, 1989).

Oliver Williamson is a significant contributor to the transaction cost theory, having extended Coase's research during the 1970s and 1980s. According to Williamson, the purpose of firms extends beyond the mere reduction of transaction costs, encompassing the mitigation of risks and uncertainties that may arise in economic transactions. The individual in question has additionally formulated the notion of asset specificity, denoting the extent to which a company's assets are tailored to a specific transaction or association. In 1985, Williamson claimed that transaction costs may be reduced by aligning the incentives of involved parties through the implementation of contracts, organisational hierarchies, and market mechanisms, as expounded in his book "The Economic Institutions of Capitalism." Williamson categorised transaction costs into three distinct types, namely search costs, bargaining costs, and monitoring costs. Search costs, bargaining costs, and monitoring costs are distinct expenses associated with conducting transactions. Search costs pertain to the expenses incurred in locating a suitable transaction partner, while bargaining costs are the expenses incurred in negotiating and reaching an agreement. Monitoring costs, on the other hand, refer to the expenses incurred in ensuring that the terms of the agreement are being fulfilled (Williamson, 1985). Moreover, Williamson posits that the presenceof elevated levels of asset specificity can give rise to "holdup" predicaments, wherein one partypossesses the ability to extract rents from the other party owing to their reliance on the specialised assets (Rindfleisch, 2019).

Peter Hennart is a significant contributor to transaction cost theory, with a particular emphasison the function of governance structures in mitigating transaction costs. According to Hennart, distinct governance structures, including markets, hierarchies, and hybrid models such as strategic alliances, can be employed to effectively handle the transaction costs linked with diverse types of transactions (Hennart, 1991). The author places significant emphasis on the significance of investments that are specific to a particular transaction and cannot be easily repurposed for other uses, commonly referred to as transaction-specific investments. In his 1982 publication titled "The Transaction Cost Theory of the Multinational Enterprise," (re-edited in future) Hennart posited that transaction costs arise from asset specificity due to heightened interdependence between parties and increased difficulty in partner switching. Hennart's taxonomy encompasses three distinct forms of asset specificity, namely site specificity, physical asset specificity, and human asset specificity. The concept of site specificity pertains to the extent to which an asset is linked to a particular location, while physical asset specificity pertains to the extent to which an asset is tailored to a specific transaction. Additionally, human asset specificity pertains to the extent towhich an asset is

customised to a particular individual (Hennart, 1991).

The theory of transaction costs, as formulated by a group of prominent scholars including the three lecturers in question and other notable contributors, has had a significant impact on the field of economics (Rindfleisch, 2019). This theory has shed light on various aspects of firm behaviour and organisation. However, it is essential to recognise specific limitations and inadequacies in the theory that warrant reflection.

One limitation of the transaction cost theory is its tendency to focus on simple transactions thatinvolve only two parties, such as a buyer and a seller. In reality, a significant proportion of economic transactions involve complex agreements and entail the participation of multiple entities (Ravaglia, 2023), such as collaborative partnerships or interconnected supply networks. Theeffectiveness of transaction cost theory in explaining complex transactions may be constrained, as such transactions may require unique governance frameworks and approaches (Rindfleisch, 2019).

A further constraint of the transaction cost theory pertains to its presupposition of complete information and rationality among all relevant actors. Incomplete information or irrational behaviour exhibited by transactional parties can result in increased transactional costs and complications (Rindfleisch, 2019). In the context of transaction cost theory, the term "incomplete contracts" pertains to contractual agreements that fail to delineate all conceivable future eventualities that may arise among the parties engaged in a given transaction. The aforementioned contingencies may pertain to matters concerning performance, monitoring, enforcement, and renegotiation. The lack of aforementioned provisions or the incapacity to precisely delineate all potential future circumstances could result in opportunistic conduct and expenses associated with transactions. As per the transaction cost theory, the existence of incomplete contracts results in the emergence of transaction-specific investments. These investments are made by one party involved in the transaction and hold no value in any other transaction (Hennart, 1991). In situations where contracts are incomplete, it is necessary for the parties involved in a transaction to engage in repeated interaction. This is done in order to build trust and goodwill over time, which helps to reduce the risk of opportunistic behaviour and the associated transaction costs.

Moreover, the transaction cost theory neglects to integrate factors such as cross-cultural differences, reliability, and customary practises, which could have substantial ramifications in the domain of economic transactions.

Numerous scholarly investigations have employed transaction cost theory as a framework to scrutinise the automotive sector. Nonetheless, there are still certain deficiencies in the current body of literature. One example of a research gap concerns the inadequacy of studies that examine the specific governance structures and transaction costs involved in the distribution of automotive products. The automotive industry has predominantly focused its research efforts on upstream activities, such as production and supply chain management, while downstream activities, such as sales and distribution, have received relatively less attention. The intricate network of relationships among manufacturers, dealers, and customers renders the distributionof automotive products a crucial area for future academic inquiry.

In conducting qualitative research on the agency sales model in the automotive industry to test transaction cost theory, it is pertinent to consider the relevance of monitoring costs and asset specificity (Mantellini, 2023). The agency sales model pertains to the practise of a manufacturer entrusting the distribution and vending of its merchandise to a group of autonomous agents. The manufacturer is required to engage in monitoring activities to ensure that the agents are adhering to the agreed-upon terms of product sales, which may result in a considerable monitoring expense. In addition, it is worth noting that the agents possess distinct expertise and proficiencies pertaining to the merchandise they are vending, thereby generating a form of human asset specificity (Alberti, 2023). In the event that the manufacturer intends to transition to an alternative agent, it may encounter substantial expenses associated with the process of switching, primarily attributable to the forfeiture of the specialised knowledge and skills possessed by the current agent (Alberti, 2023). The presence of transaction costs is anticipated to influence the governance framework of the manufacturer-agent relationship and the overall system's performance.

According to transaction cost theory, the costs associated with transactions can be substantial, especially in scenarios where the transaction is intricate or ambiguous, such as in the automotive sector, particularly in distribution. Consequently, according to the theory, economic agents will endeavour to minimise said costs by opting for the most efficient transactional methods (Rindfleisch, 2019). One possible approach is to internalise the transaction within the firm (in this case, carmakers), which can result in reduced costs associated with coordinating and monitoring the transaction. Alternatively, market mechanisms can be utilised, whereby the costs of negotiating and enforcing the terms of the transaction are distributed among multiple buyers and sellers.

The application of transaction cost theory has been observed across a diverse spectrum

of economic phenomena, encompassing the arrangement of firms, the configuration of industries,and the conduct of market agents. The utilisation of institutions, such as legal systems and contracts, has been employed to elucidate their function in mitigating transaction costs and enabling economic transactions. In general, the theory of transaction costs has emerged as a significant instrument for comprehending the essence of economic transactions and the variables that impact their expenses and effectiveness.

3.2. Theoretical Framework

Literature by Hennart (Hennart, 1991), Williamson (Williamson, 1985) and others (Rindfleisch, 2019) merge together in the definition of what this research refers to as the most relevant determinants of TCT and hence the variables under investigations to be analysed.

Coordination costs and problems

Transaction cost theory posits that the presence of complexity, uncertainty, and specificity in transactions can give rise to coordination costs and problems (Rindfleisch, 2019). Transactions that are intricate innature entail a significant quantity of interrelated variables that pose challenges in terms of comprehension and administration. The occurrence of uncertainty can be attributed to unforeseeable fluctuations in the market, advancements in technology, or alterations in the regulatory framework that impact the transaction. The concept of specificity pertains to a scenario wherein the assets utilised in a given transaction hold minimal or negligible value beyond the scope of said transaction (Williamson, 1985).

In situations where coordination difficulties and associated expenses are elevated, ensuring that all parties involved in a transaction are acting in their own best interest can prove to be a challenging task. Consequently, the involved parties may exhibit opportunistic conduct, including but not limited to shirking, holdup, or reneging on contractual commitments. The tendency to take advantage of situations can result in contracts that are not fully executed, leading to conflicts between involved parties that may incur significant expenses to settle (Williamson, 1989).

Vertical integration is a viable strategy for mitigating coordination expenses and complicationsin intricate, ambiguous, and specialised transactions. Vertical integration enables firms to consolidate various production stages and minimise transactional requirements for completing the production process. The aforementioned action diminishes the likelihood of

opportunistic conduct and facilitates enhanced coordination and regulation of the manufacturing procedure.The adoption of vertical integration is commonly perceived as a strategy to reduce transactioncosts and enhance operational effectiveness.

Intellectual property rights protection and dissemination risk

The theory of transaction costs posits that the safeguarding and dissemination of intellectual property rights (IPRs) pertain to instances wherein the asset or information being exchanged holds significant value and necessitates protection against unauthorised usage or replication. The safeguarding of assets may result in increased transaction expenses as a result of the requisite monitoring, enforcement, and legal measures. Likewise, the possibility of spreading or relinquishing authority over a valuable asset or information can result in increased transaction expenses.

Vertical integration can be perceived as a viable approach to mitigate transaction costs in such scenarios. Through internalising the ownership and control of assets or information, a company can safeguard its intellectual property rights and mitigate the possibility of dissemination (Rindfleisch, 2019). This holds significant relevance in cases where the IPRs and the associated risks play a pivotal rolein the competitive advantage or core competencies of the organisation. Vertical integration canbe an effective strategy for firms to retain control over their valuable assets and knowledge, thereby reducing the likelihood of transaction failure and minimising transaction costs.

Environmental uncertainty

The unpredictability of the environment can pose a challenge for firms in forecasting the future demand for their products or services. The present circumstance suggests that outsourcing could be a comparatively preferable alternative to vertical integration, as it endows firms withgreater adaptability to respond to environmental fluctuations. Through the practise of outsourcing, companies can transfer a portion of the risk that is linked to environmental uncertainty to their suppliers. This is because suppliers typically possess specialised knowledge and expertise that enables them to better manage such risks.

Furthermore, the practise of outsourcing can facilitate firms in exploiting economies of scale and scope, gaining access to novel technologies or expertise, and diminishing capital investments and fixed costs.

Through the process of outsourcing, companies can concentrate on their primary strengths and optimise resource allocation, while delegating non-core activities to external collaborators. Differently though, the core activities of distribution, i.e., the process required to sell cars, production apart, may take advantage from an integration for better control and monitoring, hence leading to a reduction in transaction costs (Roland Berger, 2021).

Information acquisition

According to transaction cost theory, when there is a high level of uncertainty and complexity involved in a task, it may be difficult for a firm to gather all the information needed to perform the task efficiently. As a result, the firm may have to invest in costly information acquisition mechanisms, which can increase transaction costs (Rindfleisch, 2019). In such situations, outsourcing may be a more attractive option than vertical integration.

Outsourcing allows a firm to access the specialized knowledge and expertise of external suppliers, who may be better equipped to handle the complex task and have a better understanding of the relevant markets and technology. This can reduce the need for the firm to invest in information acquisition mechanisms and can help to reduce transaction costs (Rindfleisch, 2019). In addition, outsourcing can provide the firm with greater flexibility in responding to changes in the market or technology, as it can easily switch suppliers if needed (Williamson, 1989).

On the other hand, vertical integration involves bringing the task in-house, which can increase the firm's fixed costs and reduce its flexibility. This can be particularly problematic in situations where the level of uncertainty is high and the task is complex, as it may be difficult for the firmto adapt quickly to changes in the market or technology. Therefore, outsourcing may be a moreattractive option than vertical integration in such situations.

Transaction-Specific Investments (TSIs)

Transaction cost theory posits that transaction-specific investments (TSIs) are investments thatare uniquely tailored to a specific transaction and cannot be readily transferred to other transactions. The aforementioned investments may comprise of specialised equipment, training, or infrastructure. The presence of Transaction-Specific Investments (TSIs) in a transaction heightens the likelihood of opportunistic conduct by the counterparty, who may lack motivation to fulfil their obligations after the investment has been executed.

In the event that the TSIs are bilateral, indicating that they are invested by both parties, the bonding effect is activated. This effect pertains to the relationship-specific investments made by both parties in order to establish trust and guarantee cooperation. The phenomenon of bonding has the potential to mitigate the likelihood of opportunistic conduct, thereby rendering outsourcing a feasible alternative.

In cases where the TSIs are unilateral, i.e., made by only one party, the focal firm may exhibit reluctance towards outsourcing to a partner who has not made significant investments in the transaction. This is because such a partner may lack sufficient incentives to fulfil their obligations as per the agreement. In this scenario, the option of vertical integration within the focal firm's TSIs appears to be a more feasible alternative (Williamson, 1989).

In the event that the partner invests in the TSIs, the focal firm may exhibit a greater inclinationtowards outsourcing, given that the partner has made investments in assets that are indispensable for the transaction. The investment made by the partner serves as a protective measure against opportunistic conduct, thereby rendering outsourcing a more feasible alternative.

Monitoring due to opportunistic behaviour

Monitoring is a crucial determinant in the decision-making process between outsourcing and vertical integration within the framework of transaction cost theory. In situations where monitoring costs are substantial, it may prove advantageous to engage in transaction outsourcing to a partner who possesses a strong incentive to perform optimally, as opposed to pursuing vertical integration and hiring personnel who may not exhibit the same level of motivation to perform.

In a market or partnership context, the incentive structure frequently relies on performance-based agreements and reputation, thereby incentivizing partners to exhibit non-opportunistic behaviour. On the contrary, integration might not offer commensurate incentives since the employees may not be as closely associated with the transaction's outcome as a partner who has a contract based on performance. Hence, outsourcing could be a favourable option in scenarios where surveillance is challenging, and the likelihood of opportunistic conduct is elevated.

Automotive agency distribution according to the theoretical framework

In summary, the ADM should be considered a vertical integration model as explained in the Introduction, where the suppliers are dealers (who supply the sales service to OEMs), whose core functions are integrated by the carmaker, having dealers become agents.

Hence, according to the theoretical framework above, the AMD should lead to:

- A decrease (↓) in TCs related to coordination costs and problems;
- A decrease (↓) in TCs related to IPR protection and dissemination risk;
- An increase (↑) in TCs related to environmental uncertainty;
- An increase (↑) TCs related to information acquisition;
- Considering TSIs as unilateral in the transformation process towards the ADM (dealers divest, rather than investing), a decrease (↓) in TCs related to TSIs;
- An increase (↑) in TCs related to monitoring due to opportunistic behaviour.

This assessment is resumed in Table 3, for it to be benchmarked with the empirical framework in the Discussion chapter.

3.3. Agency Sales

Although agency selling has a long history that dates back to antiquity, the modern version of agency selling first appeared in the 19th century as industrialization and mass production grew (Bonoma, 1984).

In practise, the Agency Distribution Models (ADMs) entail a principal entity (i.e., the manufacturer or supplier) who contracts an agent (i.e., a third-party salesperson or distributor) to market and distribute their products or services. The aforementioned model has the potential to yield advantages in terms of reduced expenses, increased adaptability, and entry into novel markets. However, it also poses certain difficulties pertaining to regulation, synchronisation, and incentivization (Kenneth & Baack, 1989).

According to the theoretical framework proposed by David A. Griffith and Brian R. Golden intheir work titled "Agency Theory and Its Application to Sales Agency," agency relationships are typified by a principal-agent dilemma, wherein the objectives of the principal and agent may not be entirely congruent. The aforementioned circumstances may give rise to

moral hazard, whereby the agent is motivated to undertake actions that are not in line with the principal's preferences, and adverse selection, whereby the principal encounters challenges in identifying the most suitable agent (Griffith & Golden, 1991). The authors argue that compensation should be structured to align the interests of the principal and agent, and that different types of compensation (e.g., salary, commission, bonuses) can be used to achieve different goals. The effectiveness of agency relationships can be influenced by factors such as information asymmetry, opportunism, and trust.

Evidence of this approach comes from companies in the automotive industry such as Polestar which have adopted a direct-to-consumer distribution model, which varies in terms of independence from the parent company compared to the traditional agency model (Roland Berger, 2021). The variances between agency sales and direct sales are contingent upon various factors, including but not limited to product intricacy, market configuration, and channel discord (Capgemini Invent, 2020). Certain sectors, such as the insurance and real estate industries, place significant reliance on agency sales, whereas others, such as the consumer electronics industry, employ a combination of both agency and direct sales strategies.

The proliferation of data and analytics tools is a significant catalyst for transformation in agency sales. The utilisation of data can enable suppliers to enhance their comprehension of their customers and markets, in addition to monitoring the efficacy of their agency sales personnel (Longo, 2023). Suppliers can employ predictive analytics to discern the products that are most probable to be sold in a specific market or to recognise the agents who are most proficient in selling specific products. This approach has the potential to assist suppliers in enhancing theirproduct portfolios and optimising resource allocation.

An additional significant development is the escalation of social media and other digital platforms for communication and promotional purposes (Longo, 2023). Suppliers have the potential to establish and foster connections with their intermediaries, as well as to engage in direct communication with their clientele, through the utilisation of social media platforms. Organisations have the option of utilising digital channels to offer training and assistance to their agents, in addition to collecting feedback and gaining insights from their clientele (Capgemini Invent, 2020).

Collaborative platforms represent a promising avenue for expanding agency sales. The utilisation of these platforms facilitates a closer collaboration between suppliers and agents, enabling the real-time sharing of information and resources (Longo, 2023). A supplier may

utilise a collaborative platform to disseminate product information and pricing to its agents, or to monitor the advancement of sales leads. This measure has the potential to enhance coordinationand mitigate frictional forces between suppliers and agents.

In the digital era, agencies could distinguish themselves by offering supplementary services and specialised knowledge (Alberti, 2023). An agency may have a specialisation in the sale of luxury products or may provide consultation services to assist suppliers in enhancing their sales strategies. The establishment of trust and loyalty between suppliers and agents can facilitate the development of a competitive edge for the agency (Longo, 2023).

3.4. Overview on the Automotive Industry

Competition and governance

In recent years, the automotive industry has experienced noteworthy transformations, with an emphasis on heightened competition and trends related to governance. The aforementioned advancements have significantly influenced the operational and competitive strategies of companies within the industry, and are expected to continue moulding the industry's landscape in the foreseeable future.

An important development observed in the automotive sector is the rise in competition among industry players. The advent of novel technologies and the emergence of fresh market entrants have resulted in heightened pressure on established firms to sustain their market standing and remain at the forefront of innovation. Furthermore, the competitive landscape has expanded beyond conventional industry participants and now encompasses domains such as battery technology, software development, connectivity, and mobility solutions (Simonazzi, Sanginés, & Russo, 2021). The current business climate has resulted in a concentration on innovation and efficacy, with corporations endeavouring to develop superior sales procedures, rather than exclusively superior products, to maintain a competitive edge.

In an interview regarding the distribution model of the automotive agency, Elena Alberti, who serves as the Managing Director and CFO at Penske Automotive Italy, emphasised the emergence of fresh competitors that could potentially obscure the distinctions between an automotive agency and other vehicle providers. According to her, the significance of new cars may diminish in the future, while used cars (trade-in) and service departments are expected to significantly influence the demand from one distributor to another. Intra-brand competition will be a crucial factor in large CRM systems, where market zones will play a

significant role in equalising prices across dealerships of a particular brand. This will be achieved through the application of the agency distribution model (Alberti, 2023).

Tesla's innovative electric vehicles have caused a disruption in the traditional automotive industry, leading established OEMs like General Motors, Ford, and Toyota to invest in their own electric vehicle programmes.

The globalisation of the market is an additional illustration of heightened competition within the industry. Firms are extending their business activities to novel geographical areas with the aim of accessing untapped markets and maintaining a competitive edge. Geely, a Chinese automaker, has acquired several established automotive brands including Volvo, Lotus, and Mercedes-Benz's bottom-brand smart, resulting in a significant expansion of its global presence.

The automotive industry is experiencing a notable trend towards prioritising sustainability and environmental responsibility. There is indeed a growing awareness among consumers regarding the environmental consequences of their purchasing choices. As such, they are seeking out products that are manufactured using sustainable materials and eco-friendly production methods. Enterprises operating within the automotive sector are addressing this exigency by allocating resources towards novel technologies and methodologies that mitigate their ecological footprint and abet in curtailing their carbon emissions (Deloitte, 2023).

Volkswagen has declared its objective of achieving carbon neutrality by 2050 and has allocated substantial resources towards the development of electric and hydrogen fuel cell automobiles. These advancements have been implemented throughout the entirety of its ownership structure, including Audi AG and other affiliated entities. Toyota has emerged as a prominent frontrunner in the realm of hybrid automobiles, exemplified by the widespread association of its Prius model with the notion of environmentally conscious transportation. The President of Toyota, Akio Toyoda, who was bestowed with the title of "World Car Person of the Year" in 2021, has expressed his opposition towards electric technology, citing its exorbitant costs as a hindrance to its long-term feasibility (Savelli, 2020). The multinational corporation made significant investments in alternative fuels, in addition to enhancing its production of Full-Hybrid Electric Vehicles (FHEVs), as opposed to prioritising Plug-in Hybrid Electric Vehicles (PHEVs) like some of its European competitors in the premium-luxury market, such as Audi, BMW, Mercedes-Benz, and Porsche.

However, it is important to note that competition is not limited to inter-brand rivalry,

but also extends to intra-brand competition, which occurs between dealerships of the same automotive brand within a specific geographic area. This type of competition is subject to various microeconomic factors that contribute to its intensity. For instance, two BMW dealerships located in the same district may engage in fierce competition with each other.

Market saturation is a crucial factor in determining the level of intra-brand competition. With the maturation of the automotive industry in various regions, dealerships are encountering heightened competition from other dealerships within the same brand. In regions with a high concentration of dealerships, market agents are required to employ advanced strategic tactics in order to effectively draw in customers and differentiate themselves from their competitors.

The advent of the digital era has led to an unprecedented growth in consumer power. The proliferation of the internet and the accessibility of highly targeted information pertaining to commodities and amenities have led to a significant increase in consumer knowledge and agency during the purchasing journey. The increased options and bargaining power afforded to market agents has resulted in heightened competition among dealers. This competition is predicated on the ability of market agents to satisfy elevated levels of quality standards and technical professionalism, as the game is shared between these agents.

The evolving consumer preferences pertaining to vehicles, including the surging inclination towards electric and autonomous vehicles, as well as the desire for connected in-car services and remote vehicle control, have resulted in heightened competition among dealers striving to attract customers in these particular segments.

From a governance perspective, the dynamic between manufacturers and dealers has undergone a shift in recent years, wherein manufacturers have adopted a more proactive approach towards overseeing their dealer networks. The heightened standards and increased performance demands imposed by manufacturers have led to intensified competition among dealers (Capgemini Invent, 2020).

The competitive landscape among dealers can be affected by economic factors, including but not limited to recessions and fluctuations in consumer spending. During periods of economic hardship, dealers may adopt more assertive marketing and pricing tactics in order to entice customers and maintain solvency. This study examines the impact of the global COVID-19 pandemic on highly competitive markets, both during and after the outbreak.

Regulation

Moreover, there is an increasing emphasis on matters related to governance within the automotive sector. Corporations are subject to elevated expectations regarding their operational practises and manufactured goods. The domain of safety has witnessed an escalating need for automobiles that are furnished with state-of-the-art safety attributes and conform to the most elevated safety benchmarks. Corporations are increasingly being held responsible for their labour practises and are expected to exhibit evidence of providing their workforce with secure and equitable working environments. Ford has faced criticism for its labour practises in the past and has subsequently implemented several reforms aimed at enhancing working conditions and elevating employee satisfaction.

The dynamic regulatory landscape poses a significant obstacle for firms operating within the automotive sector. The global industry is facing new regulatory and standardisation measures enforced by governments, necessitating companies to adjust their operations to maintain competitiveness. Some of the most notable include:

- European Union Emissions Regulations: The European Union has introduced new emissions regulations that require automakers to reduce the average CO2 emissions of their fleets compliant with Euro 7 standards. This has forced companies such as Volkswagen and BMW to make significant investments in electric and hybrid vehicles in order to meet these standards (European Commission, 2022).
- United States Corporate Average Fuel Economy (CAFE) Standards: The US government has introduced new fuel efficiency standards that require automakers to improve the fuel efficiency of their fleets. These standards are designed to reduce greenhouse gas emissions and improve energy security (NHTSA, s.d.).
- United Nations Global Technical Regulations (GTRs): The United Nations has introduced a series of global technical regulations that are designed to harmonize vehicle regulations across different countries and regions. These regulations cover a wide range of areas, including vehicle safety, emissions, and energy efficiency (UNECE, s.d.).
- China New Energy Vehicle (NEV) Credit System: The Chinese government has introduced a new energy vehicle credit system that requires automakers to produce a
- certain number of electric and hybrid vehicles in order to meet the country's

environmental targets. Companies that are unable to meet these targets may be subject to fines or other penalties (IEA, 2018).

- India's Bharat Stage Emissions Standards: The Indian government has introduced new emissions standards that are designed to reduce air pollution and improve public health. These standards apply to all vehicles, including cars, trucks, and buses, and are some of the most stringent in the world (IEA, 2020).

The automotive industry has witnessed the introduction of several new regulations and standards on an international level. The aforementioned examples serve as a testament to this development. Organisations are compelled to adjust to these alterations in order to sustain their competitiveness and cater to the demands and inclinations of their clientele.

New buying habits

The altered buying behaviour of customers in the automotive industry can be attributed to both the cause and consequence of changes within the industry, resulting in a cyclical process.

An important implication of these trends is that there is a growing demand among consumers for automobiles that are eco-friendly and sustainable (Ivanona & Carrizo Moreira, 2023). The aforementioned circumstance has resulted in an increasing need for electric and hybrid automobiles, as well as automobiles that are furnished with sophisticated fuel-conserving technologies. Organisations capable of providing such vehicles are strategically positioned to cater to evolving customer demands and inclinations.

An additional consequence of these modifications is that consumers are seeking automobiles that possess cutting-edge safety technologies and adhere to the most rigorous safety criteria. Enterprises are making investments in novel safety technologies, such as advanced driver assistance systems (ADAS), and are integrating these functionalities as customary in their automobiles. This measure is contributing to the enhancement of vehicular safety for customers and their families. Pre-collision alerts, line-keeping assist, adaptive cruise controls, pedestrian and cyclists' safety systems, parking assistants, and autonomous driving are among the most frequently encountered features.

Regarding the regulatory landscape, consumers are facing progressively rigorous emissions and fuel efficiency regulations that are impacting the range of automobiles accessible

in the marketplace (European Commission, 2022). Customers tend to prefer companies that are capable of meeting environmental standards and providing fuel-efficient vehicles. This is due to the fact that customers incur higher costs when using older technologies, such as petrol and diesel engines. Governments often offer significant incentives to encourage the purchase of eco-mobility products.

The COVID-19 pandemic has resulted in a reduction in disposable income for a significant number of individuals, leading to altered purchasing behaviours and an increased sensitivity to pricing among customers. Regarding this matter, a survey conducted by Capgemini on automotive consumers in 2020 has disclosed that, subsequent to the pandemic, 75% of customers aged between 18 and 65 from six global markets anticipate the ability to procure their succeeding automobile online, as a component of an integrated omnichannel experience. Furthermore, 77% of the aforementioned customers prefer the equivalence of prices online and offline (Capgemini Invent, 2020), reflecting a tendency towards the need of price transparency and stability. At one end of the spectrum, corporations are compelled to provide automobiles that are priced competitively, yet maintain elevated standards of quality and performance. Conversely, high-performing petrol engines found in sports cars are progressively being viewed as a symbol of status in certain contexts. Conversely, electric power is utilised in top-tier luxury vehicles such as Rolls-Royces to offer users an unprecedented level of noiseless comfort (Elliott, 2023).

In recent years, there has been a discernible change in consumer inclinations, with a notable deviation from conventional sedans towards sport utility vehicles (SUVs) and crossovers. The surge in popularity of larger and more adaptable automobiles can be attributed to various factors, including heightened fuel efficiency and a growing demand for increased capacity and flexibility. Furthermore, as previously stated, the rising apprehensions regarding climate change and the ecosystem have led to a surge in consumer interest towards these automobiles due to their reduced emissions, enhanced fuel efficiency, and the possibility of better safety and convenience. Consequently, there is an increasing need for technologically advanced and interconnected automobiles. There is a growing trend among consumers to seek out technologically advanced equipment, including but not limited to in-car Internet of Things (IoT), augmented reality (AR), virtual reality (VR), entertainment systems, connectivity features, and advanced safety systems. Automotive manufacturers are addressing this phenomenon by allocating resources towards cutting-edge technologies in order to cater to evolving consumer demands.

The evolving preferences and demands of customers have created a competitive and rapidly changing market, where Original Equipment Manufacturers (OEMs) that can effectively respond to these changes and provide vehicles that align with customer needs and preferences are likely to achieve success. On the dealers' end, the most advantageous position will be held by those who possess the ability to professionally and knowledgeably engage customers with the new identities of various brands, thereby pursuing a business-of-experience, or brand experience (BX) strategy (Rodrigues, Sousa, Gomes, Oliveira, & Lopes, 2023).

This is particularly apparent when the automotive sector is contrasted with other industries. Consumers have become accustomed to corporate strategies that prioritise customer satisfaction and streamlined purchasing processes across various industries. This trend is particularly evident in the personal technology sector, which includes mobile phones, personal computers, and voice assistants. The lines between this sector and the automotive industry are becoming increasingly blurred.

The automotive industry is increasingly adopting an enhanced and user-friendly sales approach that aligns with customers' expectations and service benchmarks observed in other sectors, both online and offline (Felser & Wynn, 2023). Nevertheless, the conventional approach to sales, which involves dealerships, fails to sufficiently cater to the latter.

The identification of efficiencies within the value chain has become increasingly critical due to the emergence of electric or driverless vehicles, as well as shifting expectations and behaviours. The aforementioned factor exerts a substantial influence on the expenses incurred in the production process, thereby constituting a prominent challenge encountered by the automotive sector (Capgemini Invent, 2020).

PESTEL analysis

The purpose of this analysis is to examine the macro-environmental factors that have recently affected the automotive industry. To categorise these factors, the PESTEL framework (which includes Political, Economic, Sociocultural, Technological, Environmental, and Legal considerations) can be utilised. This framework can provide a more comprehensive understanding of the rapidly changing environment and offer insight into why various market players have implemented strategic operational restructuring, such as the agency distribution model.

Political:

- The automotive sector is heavily regulated by government. This encompasses safety, pollution, fuel efficiency, and trade legislation and taxes that affect car and component imports and exports.
- To reduce greenhouse gas emissions and improve air quality, governments are imposing tight emissions requirements, which affects vehicle design and manufacture. (Dong-xiao Yanga, 2019).
- Government incentives and subsidies for alternative fuel and electric vehicles are shaping the industry's direction.
- War, social upheaval, and natural disasters can interrupt supply chains and lower customer demand, affecting the sector. Vehicle manufacture has been affected by the Russia-Ukraine conflict. Semiconductor, chip, and cable shortages have exacerbated this. Magna International Inc. and other suppliers operate in crisis zones. Russia supplies vital raw minerals like palladium and neon gas (KPMG LLP, 2022).
- Technology may cause international policy competition. The global car industry's standing affects a nation's political economy's combustion engine phaseout goal. Exporters encourage change in many ways. To stay competitive, export-oriented automakers prioritise industrial modernisation. Countries seeking export-oriented electric car industries prioritise industrial upgrading. Importing nations highlight environmental concerns while phasing out (Jonas Meckling, 2019).

Economic:

- Consumer confidence and spending power affect automobile sales, which are heavily influenced by the global economy. Interest, inflation, and exchange rates affect consumer spending, borrowing costs, and export competitiveness (Mankiw, 2021). The above variables raise car prices and finance rates. This affects customers' intra-brand model and inter-brand segment preferences. Multinational car firms depend on exchange rates for margins. These rates affect large companies' Purchasing, Finance, Sales, and Operations departments.
- The industry can be influenced by the cost of production, which can be affected by the cost of raw materials, including steel, aluminium, and rubber (KPMG LLP, 2022). The Russian-Ukrainian conflict breakout affected the rubber processing industry. Russia exports BR and IIR. Industrial enterprises faced increased raw material shortages due to the pandemic. Rubber is used in engine cables, tyres, EV-charging cables, and other

vehicle components. The 2021 chip shortage caused production shutdowns, delays, and higher prices for automakers. Many automakers have had to adjust their production schedules and cut their output, reducing the availability of new cars and raising the price of pre-owned ones (Chandler, 2022).

- Ultimately, labour costs, including wages and benefits, are also a factor in the industry, as they can impact the cost of production and competitiveness in the global market (Mankiw, 2021).

Sociocultural:

- Consumer attitudes and preferences are a crucial factor in the automotive industry, as they drive demand for specific types of vehicles. Changes in lifestyle and values, such as a growing focus on sustainability and environmental awareness, can also affect the industry by driving demand for electric and hybrid vehicles.
- Demographic trends, such as population growth and aging, can also have an impact on the industry. For example, an aging population may result in higher demand for mobility solutions and accessible vehicles.
- Urbanization and increased congestion can also impact the industry, as consumers may be more likely to seek out alternative forms of transportation, such as shared mobility solutions or electric bicycles.

Technological:

- Advances in technology have a major impact on the automotive industry, from the development of new powertrains and propulsion systems to the integration of connected and autonomous technology (OECD Publishing, 2019). The rapid pace of technological change means that companies must continually invest in research and development in order to stay competitive and offer the latest features and technologies to consumers.
- The increasing use of technology in vehicles also raises new cybersecurity and data privacy concerns, as personal data and vehicle systems become increasingly connected and vulnerable to hacking (S. Heierhoff, 2022).
- The development of new materials, such as lightweight and sustainable composites, can also impact the industry by affecting the design and production of vehicles.

Environmental:

- Governments have tightened emissions and fuel efficiency restrictions due to the car industry's environmental effect. On February 16, 2023, the European Parliament and Council modified vehicle and van CO2 emission regulations. This decision follows the European Commission's July 2021 'Fit for 55' guidelines. These suggestions aim to ensure that the EU's climate, energy, land use, transport, and taxation policies reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels (European Commission, 2023).
- The industry must address resource use, emissions, and waste management throughout the vehicle lifecycle, from manufacturing to disposal and designation as End of Life Vehicles (ELVs). Electric and alternative fuel vehicle sales are rising due to the need to reduce carbon emissions and improve air quality, affecting the industry.
- Diverse marketplaces must overcome challenges to progress. According to Deloitte's 2023 research, electric car adoption is hindered by cost, range, and battery safety. Several automobile OEMs have implemented the agency distribution model to streamline operations and improve economic efficiency, which could help reduce production costs (Deloitte, 2023). According to KPMG LLP, the sector must also consider the environmental impacts of its supply chains, including raw material procurement and waste disposal (KPMG LLP, 2022).

Legal:

- The automotive industry is subject to a range of legal and safety regulations, from vehicle design standards to emissions requirements (Dong-xiao Yanga, 2019). Companies must be prepared to rapidly and efficiently address product liability and recall risks. In 2000, Ford Motor Company was liable for the Firestone tyre recall. Millions of Ford vehicles with Firestone tyres were recalled after tread separation and blowouts caused many accidents and deaths.
- Vehicle technology creates privacy, data ownership, and cybersecurity issues. Software applications enable cooperative intelligent transport networks, autonomous vehicles, improved safety, efficiency, and comfort. Modern applications require more automotive computerization and communication. Automotive apps and technology advances endanger security and privacy, despite their benefits to the auto industry and consumers (Van Huynh Le, 2018).

3.5. The Agency Distribution Model

Parallelisms with other industries

Agency sales is a sales strategy in which a company hires a third-party agent or agency to selltheir products or services. This approach is commonly used by businesses that lack the resources, expertise, or network to sell their offerings effectively.

One example of an industry that commonly uses agency sales is the insurance industry. Insurance companies often rely on independent agents to sell their policies to customers (Dalla Pozza, 2023). These agents are not employees of the insurance company but work on a commission basis, earning a percentage of each policy sold. This arrangement allows insurance companies to expand their reach and sell to customers who may not have otherwise been aware of their offerings. This example transposes to the automotive industries as OEMs will retain the agents as a key touchpoint with their customers, while absorbing the supply chain vertically (Alberti, 2023).

Agency sales are also common in advertising. Advertising agencies work with companies to create promotional campaigns to boost brand awareness and sales. Advertising companies may create appealing promotional materials and execute marketing campaigns across channels. Companies may find these tasks difficult and resource-intensive. Agency sales allow car OEMs to focus on product innovation and efficiency. Dealers can then invest in product knowledge, events, and customer service.

Agency sales is a viable approach in the technology sector for vending software or hardware products to enterprises. Organisations such as IBM and its counterparts employ agency sales as a means to broaden their sales outreach into novel markets or geographic regions (IBM, 2023). The organisation facilitates the identification of prospective clients and devises tailored marketing presentations that accentuate the advantages of the merchandise.

Agency sales are a viable option for marketing and selling clothing lines and fashion accessories within the fashion industry. Kering S.A. employs the services of agencies to market their products to upscale retail establishments and boutiques, such as those located within Harrod's in the United Kingdom or Rinascente in Italy (Kering S.A., 2023). The agency has the potential to utilise its network and established connections to effectively showcase the products to the appropriate target audience, thereby enhancing the likelihood of a successful transaction. Penske Automotive Italy, which encompasses multiple high-end car dealerships in Italy, has the potential to serve as a significant asset for automakers in the realm of retail,

enhancing the value of individual brands through targeted investments in customer experience.

In general, the utilisation of agency sales may prove advantageous for firms seeking to broaden their sales coverage and augment their earnings. Collaborating with a third-party agency enables companies to capitalise on their proficiency, connections, and assets to enhance the efficacy of their product or service sales, from both a perceptual and financial perspective.

Dealership, direct and agency sales models: a comparison

Similar to other domains, the progression of automobile distribution necessitated a considerable amount of time to transpire. Manufacturers have adopted various international distribution strategies based on factors such as the product type, the original equipment manufacturer's (OEM) birth period, their values, and their geographical preferences. The aforementioned can be classified into two distinct modes, namely dealership mode and direct mode. Additionally, there exists an intermediary, more intricate solution referred to as the agency sales model.

In 1898, William E. Metzger obtained a licence from General Motors to sell steam-powered vehicles and subsequently established the first-ever automobile dealership in history. Throughout the initial two decades of the 1900s, a variety of distribution models were experimented with in the automobile industry. By the 1950s, the dealership model had surfaced as the most prosperous approach for marketing automobiles in the United States.

Under the dealership model, manufacturers and dealers are separate or even unrelated legal companies. OEMs distribute their products to dealers, who run their own chain stores to sell to customers directly. This dealership model gives producers more cash flow flexibility because they receive their money before cars are actually sold to end customers (Mantellini, 2023). The relatively quick and affordable distribution of manufacturers' automobiles through the dealer sales network is a big advantage of this strategy for those companies. By doing this, OEMs may concentrate their efforts on things like boosting manufacturing capacity and modernising technology (Setti, 2023).

But there are several challenging issues with the dealership model. As a middle layer in the supply chain, dealers operate, which drives up transaction costs. Should businesses continue to set prices for dealers, manufacturers may also lose some influence over retail pricing or run higher risks of violating antitrust laws. With this strategy, carmakers are prevented from constantly dealing with end consumers directly, which makes it impossible for

them to provide a positive user experience. The reputation of OEMs and their capacity to make money might potentially be put in danger by non-compliance and anomalies in dealers' sales operations. Actually, in order to increase their sales, manufacturers may urge their dealers to buy much more inventory than they actually need. This may cause tensions between manufacturers and their dealers to rise (Deloitte Legal, 2021).

These issues have prompted a number of OEMs to consider various sales tactics and analyse their effects, including the direct sales model and the agency model.

Direct-to-consumer (DTC) strategy is the name given to the former, in which manufacturers perform direct sales to their clients without the assistance of dealers using online marketplaces and their own brick-and-mortar sites. DTC sales and new entrants like Tesla have started full-scale online sales, which have frequently supplanted the traditional technique of selling cars and have significantly changed the automotive retailing business (Chen & Perez, 2018). DTC models let businesses communicate with customers directly using digital channels and technology, avoiding the need for manufacturers to include retailers in the value chain and cutting down on transaction costs. These offline stores are an effective way to enhance the user experience because they operate more like customer experience centres than simple retailers. However, manufacturers will be in charge of their own retail prices and will have direct contact with customers (Kim, Connerton, & Park, 2021).

The fact that manufacturers might have to build their own supply chain and distribution network from scratch and that there won't be any dealers with whom to share operational risks under this model must be kept in mind, though (Capgemini Invent, 2020).

Given that they have grown more accustomed to and dependent upon their previous dealership setup, traditional OEMs may seem more reluctant to implement this direct sales strategy (Deloitte Legal, 2021). In addition, implementing the direct sales model would need re-evaluating, redefinition, and reconstruction of their operational procedures in addition to re-streamlining the legal contract/compliance framework with their clients, warehouses, logistics providers, etc. (Setti, 2023). If a "greenfield" strategy, which comprises building an agency sales model from scratch in a completely new environment, is feasible, the scenario changes. New market players like Polestar decided to structure their sales model from the beginning on a market-agent connection because there was no existing traditional dealer network to replace (Capgemini Invent, 2020). Before implementing the new strategy, traditional OEMs had to weigh rising costs and dangers. In reality, conventional automakers have opted to investigate

this new sales technique in their NEV (New Energy Vehicles) sector in order to keep up with this market transformation.

As an alternative to the dealership model and the direct sales strategy, the latter, i.e., the ADM, which is still relatively uncommon in the automotive industry, is used. Although the OEMs have the last word on retail price, local agents and online platforms serve as their representatives and do not share operating risks with them. This business model allows some OEMs to significantly reduce their retail costs by delegating the sale of their products to regional representatives or online marketplaces (Setti, 2023).

It's interesting to note that traditional OEMs are more willing to experiment with this "not totally reformed model" because they want to utilise the existing dealer network to the fullest and because turning dealers into agents reduces disputes over retail prices and inventory levels (Mantellini, 2023). The cost of building their own retail locations and delivery networks is a significant driver as well (Deloitte Legal, 2021).

However, the agency model raises new problems. In reality, it is common practise for some OEMs to provide subsidies to help with their operations (like shop setup) and, to some extent, to muddy the distinction between the responsibilities of "agents" and "dealers" in order to inspire their agents (Mantellini, 2023). Since OEMs would be in charge of pricing under such a paradigm, some jurisdictions would experience antitrust issues. In addition, the market hasn't adequately assessed and validated the efficacy of agents because the agency model is still in its infancy (Deloitte, 2023). Manufacturers must negotiate new contract terms and incentive schemes with their agents in addition to assuming complete responsibility over the supply chain, customer complaints, and additional payment and invoicing issues, which may or may not be covered by OEMs (Capgemini Invent, 2020).

3.6. Research Gap

Extensive research has been conducted on the impact of the automotive industry's transition from DDM to ADM on sales, pricing, and customer satisfaction. Previous research has identified significant advantages and disadvantages associated with the use of the ADM. However, there is a dearth of transactional cost effectiveness studies comparing the two distribution strategies.

There is a need for academic research on the transactional costs associated with DDM and ADM, including but not limited to coordination, information acquisition, and monitoring.

Further investigation is required to examine the impact of the transition from DDM to ADM on the transactional costs of car OEMs and their affiliated dealerships.

Carmakers which are contemplating or have already adopted the use of the ADM may derive advantages from comprehending the transactional cost efficiency of both the DDM and ADM. The dearth of research in the realm of transaction cost theory and its implementation in the automotive sector presents an opportunity for scholars to make valuable contributions.

The authors have directed their attention towards the utilisation of transaction cost theory by automotive companies in order to ascertain their organisational framework and vertical integration. TCT is a theoretical framework employed by scholars to elucidate the rationale behind industry organisations' decision to vertically integrate certain activities while outsourcing others.

Empirical research suggests that the strategies adopted by firms in a particular sector can be explained by transaction cost theory. In their empirical analysis titled "Transaction Costs and the Boundaries of the Firm," Franklin Allen and Douglas Gale observed that automakers tend to outsource tasks that entail low transaction costs (Allen & Gale, 2000). The present study undertakes an analysis of the transactional costs associated with the adoption of the ADM framework. The objective of this analysis is to evaluate the suitability and explanatory potential of the theory in the context of automobile distribution.

The automotive industry is frequently cited as an example of the implications of transaction cost theory, owing to its intricate supply chains and requirement for worldwide coordination (Williamson, 1985). Particularly with the increasing digitization of the supply chain and the experimentation of novel technologies.

The scholarly discourse has not yet scrutinised the justification for employing the agency distribution model as a means of rectifying ineffective automobile supply, augmenting automotive original equipment manufacturers' profits, and mitigating competitive imbalances among dealerships belonging to a particular brand.

An investigation based on the transaction cost theory regarding the incoming agency model within the automotive industry has the potential to contribute to the existing body of literature by elucidating the ways in which companies employ this model to govern their transactions and organise their operations.

Transaction cost theory can be employed to analyse the costs and benefits of the entering agency model. This aids in elucidating a company's selection of a particular model.

An analysis of the transaction cost implications, encompassing both internal and external transaction coordination costs, can enable scholars to gain a deeper comprehension of the strategic motives underlying the incoming agency model. This approach facilitates a comparative analysis between the inbound agency model and alternative sales strategies such as direct sales or outsourcing.

An analysis of transaction costs pertaining to the forthcoming agency model could provide insights into the impact of legal and cultural disparities on its adoption, given the global scope and susceptibility of the automotive industry to such variations. The present domain has the potential to address a research gap in the extant literature by offering a more comprehensive comprehension of the impact of the agency model on automotive firms and its harmonisation with alternative organisational frameworks.

The majority of scholarly investigations have focused on analysing transaction cost factors through the lens of producers, while disregarding the examination of the strategic consequences of these theoretical justifications on dealers' internal and external management practises, customer relationships, and the emergence of novel professional roles.

4. Methodology

This paper's objective is to undertake a qualitative, theory-testing, pattern-matching research on automotive agency distribution with the goal of putting to the test transaction cost theory as of the literature by Ronald H. Coase (Coase, 1937), Oliver E. Williamson (Williamson, 1985) (Williamson, 1989) and Jean-François Hennart (Hennart, 1991).

Qualitative research involving pattern-matching and theory-testing is concerned with the analysis of data patterns for the purpose of developing or testing theoretical concepts. This methodology is commonly employed to investigate intricate phenomena or to evaluate pre-existing theories in novel circumstances.

According to Creswell & Creswell, this methodology is characterised as research that either generates or tests theories and involves the identification of patterns or themes in data that correspond to theoretical concepts or propositions. The initial step of the investigation involves the establishment of a theoretical framework, which is subsequently subjected to empirical scrutiny through data analysis (Creswell & Creswell, 2018). The Creswell explicate the methodology of employing pattern-matching to discern themes or patterns in data that align with theoretical concepts or propositions, as delineated in his publication. The authors additionally expound upon the significance of theory in directing the research process. Furthermore, the authors elucidate how qualitative research that employs theory-testing and pattern-matching techniques can be utilised to produce or verify theoretical frameworks.

The significance of theory in this form of research is also underscored by Robert K. Yin. According to the author, the process of theory-testing research relies heavily on pattern-matching, which entails the comparison of observed patterns in the data with those anticipated by the theory under examination. According to Yin, the implementation of this methodology necessitates meticulous consideration of case selection and the utilisation of various data sources to corroborate results (Yin, 2009). Yin's publication delves into the utilisation of pattern-matching as a hypothesis testing mechanism in case study research, while underscoring the significance of theory in directing the research procedure.

Performing a case study of Penske Automotive Italy as an empirical framework, this research looks for matches between the main principles of TCT and the worldwide trend that is seeing major carmakers shift from a DDM to an agency distribution model ADM.

4.1. Research Design

Research approach

Qualitative research is defined as a "form of inquiry that emphasizes the importance of understanding a phenomenon within its context and the meaning people give to their experiences" (Creswell, 2018). In this case, the phenomenon under investigation is the global tendency, in the world of automotive sales and distribution, from a traditional, dealership-contract, vertically fragmented business model towards a new, agency-contract, vertically-integrated distribution strategy, as explained above.

This paper enucleates the ADM in all its forms and variables, both business-related and economical, explaining the changes it introduces to the bottom-end contractors in automotive distribution from an empirical perspective.

In particular, succeeding literature on transaction cost economics by the theorists Ronald H. Coase (Coase, 1937), Oliver E. Williamson (Williamson, 1985) (Williamson, 1989) and Jean-François Hennart (Hennart, 1991), an interpretation of the transaction costs involved in automotive distribution is provided based onthe following variety of distinct determinants of TCT, deemed the most relevant to discuss:

- Coordination costs and problems;
- Intellectual property rights protection and dissemination risk;
- Environmental uncertainty;
- Information acquisition;
- Transaction-specific investments (TSIs);
- Monitoring due to opportunistic behaviour.

The paragraph “Theoretical framework” above describes the postulates of TCT relative to thelatter, hence explaining the theory to be tested along the empirical research for each of the agency distribution model characteristics.

Specifically, a selection of aspects of the ADM was grasped by the Author with the help of Andrea Mantellini, CEO of Penske Automotive Italy (Mantellini, 2023) and Stefano Setti, CHRO of Penske Automotive Italy and former Global HR Business Partner Commercial at Maserati SpA (Setti, 2023). These factors include:

- Production strategy;
- Sales contract;
- Pricing and commissions;
- Billing and dunning;
- Ownership of inventories and supply stock access;
- Demo cars;
- Data ownership.

The paragraph “Strategic transaction-cost evaluation of agency sales” below explicits the analysis emerged from interviews to Penske Automotive Italy’s top and middle management, in relation to the transaction costs involved in each of the mentioned characteristics.

Finally, this research comes to a conclusion by pursuit of a pattern-matching approach. A confrontation between the theoretical framework and the empirical framework (summarized below).

Rationale for choosing Penske Automotive Italy

There exist multiple potential rationales for selecting Penske Automotive Italy as a subject of investigation for a qualitative, theory-testing inquiry into the transaction-cost efficiency of the automotive agency distribution model in contrast to the dealership model. Primarily, the aforementioned are:

- Penske Automotive Italy's market presence is situated within the Italian automotive industry, a prominent market within Europe that accommodates numerous prominent automakers. Analysing Penske's experience within this market may offer valuable insights into the efficacy of the agency distribution model within a fiercely competitive and rapidly changing market.
- Penske Automotive Italy’s BoD and middle management possesses knowledge and familiarity with both the dealership distribution model and the agency distribution model. Indeed, historically, brands like those dealt with by the Group (Audi, BMW, MINI, Mercedes-Benz, Smart, Porsche, Jaguar, Land Rover, Volvo, Maserati) used to maintain a dealerships structure for their distribution throughout the world. Though, recently, the BMW, MINI, Mercedes-Benz, Smart, Jaguar and Maserati mother houses

started transiting towards the agency distribution model (Longo, 2023). Conducting an analysis of the transaction-cost efficiency of both models through comparative means could yield valuable insights into their respective experiences.

- Penske Automotive Italy is a constituent of Penske Automotive Group, a multinational enterprise that specialises in the premium/luxury retail and provision of automotive products and services across various markets and sectors. The company boasts a diversified portfolio. An examination of Penske's encounter with the agency distribution model may yield valuable insights regarding the efficacy of the model in diverse markets and segments.
- Penske Automotive Italy has the potential to serve as a collaborative partner in the research endeavour by offering valuable access to its operational and managerial insights and expertise. The enhancement of research quality and relevance, as well as the increase in practical implications for the automotive industry, could be achieved through this approach.
- The Author acquired familiarity with Penske Automotive Italy subsequent to a four-month internship at the BMW and MINI subsidiary located in Bologna, Italy, spanning from June 2022 to September 2022. Subsequent to the completion of the internship, the author was presented with a formal employment prospect from the organisation, commencing in January of 2023. The author was able to cultivate a constructive rapport with the middle and upper echelons of the organisation, who readily provided backing for the advancement of this research endeavour.
- The Author's interest in Penske Automotive Italy was sparked by personal reasons, leading them to pursue a Bachelor of Science in Business and Economics thesis at Alma Mater Studiorum Università di Bologna. The thesis topic focused on the transformation of automotive sales, specifically the shift from product-centricity to customer-centricity in order to drive customer loyalty. The present study investigated the transition in emphasis of automotive brands from tangible goods to intangible experiences and services with the aim of augmenting customer allegiance, a strategy that is consistent with the marketing tactics employed by Penske Automotive Italy. The present investigation endeavours to expand upon the subject matters investigated in the undergraduate thesis endeavours.

Data collection methods

Data were collected by means of in-presence interviews at Penske Automotive Italy’s headquarters or subsidiaries, according to scheduled meetings defined by the Author with the

firm’s middle and top management.

Notes were taken on general ideas, quotes, examples, opinions and experiences told by the Participants, for the latter to be gathered in a logical, unmistakable way and be analysed in comparison to the theoretical framework to draw conclusions on the ADM’s transaction-cost efficiency.

Ethical considerations

It is important to note that the research under consideration involved the respect of the following ethical conduct:

- Fully-informed consent: the study ensured that participants were fully informed about the research's nature and provided with informed consent to participate.
- Confidentiality of personal information: the confidentiality of personal information was carefully maintained through rigorous measures to safeguard the privacy of participants. The current investigation solely comprises content that is strictly related to professional matters.
- Prevention of adverse effects: preventative measures were instituted to safeguard against any negative consequences that may have arisen from the research, with the aim of protecting the participants, the organisation, and the wider community.
- Personal bias mitigation: measures were implemented to reduce the potential impact of personal biases on the research findings. At present, there is a lack of awareness or recognition regarding any existing biases.
- Respectful conduct: the study ensured that all participants were treated with respect and that any behaviour that could be considered discriminatory or exploitative was strictly prohibited.
- Data accessibility: the data collected during the study were considered publicly accessible from the moment participants provided consent for their use in research. This was transparently discussed with the participants during the interviews. Only the content and data that the interviewees permitted to be shared were utilized by the Author.

4.2. Data Collection

Participants

The selection of participants was based on the aim of achieving the most diverse range of experiences, roles, and brands that were feasible within the context of Penske Automotive Italy. The objective of the subsequent excerpt is to gather testimony from experts:

- Who are in touch with the mother houses they deal with on a daily basis and whose knowledge of the latter is hence maximised;
- Who manage business units who allow them to see clear differences between brands that are pursuing agency sales and those which prefer sticking to the dealership distribution model;
- Who have a wide perspective on the interconnection of a business unit's actions on the other areas;
- Who have many years of experience in the automotive sector and are hence apt at evaluating practical implications, both advantages and disadvantages, of the ADM, not only from a dealer's perspective, but also from a carmaker's;
- Who are varied in hierarchical position (both top managers and middle managers), so to better render the idea of how such a new distribution model can permeate the business structure of an automotive firm;
- Who are updated, by the nature of their role, about the most recent evolutions in the world of automotive sales and manufacturing.

In respect of the above, Table 2 showcases the underwent interviews.

Interview protocol, questions, and coding

The interviews were conducted in a structured manner, beginning with an introduction of the interviewees and an explanation of the research objective and structure. The rationale behind the selection of a qualitative, theory-testing, pattern-matching study was also elucidated.

The subsequent stage of the meetings was allocated to conducting a structured interview, comprising targeted inquiries that align with the models of both the theoretical and empirical frameworks.

The typical question format was:

> *"According to your experience at Penske Automotive Italy and personal business knowledge, how does X change between the dealership and the agency distribution models? How do you think the latter impacts, both positively and negatively, transaction costs related to Y, both at producer and dealer (agent) level?"*

where:

- The set of business aspects that the ADM is expected to impact the most is denoted by the code "X" (according to what was discussed with Andrea Mantellini and Stefano Setti, as explained above);
- The main transaction cost theory determinants are denoted by the code "Y" (as extrapolated by Coase, Williamson and Hennart's literature, as explained above).

Coding is a crucial step in qualitative research, whereby the researcher identifies and categorises patterns in the data to develop themes or concepts that represent the underlying meanings or experiences of the participants. According to Creswell, coding refers to the act of assigning words, phrases, or numerical values to the data that has been gathered, with the aim of creating categories or themes (Creswell & Creswell, 2018).

After, the codes for the different variables considered in this study (employed in Table from 5 to 12):

- Coordination = COORD, IPR Protection = IPRP, Environmental Uncertainty = EU, Information Acquisition = INFO, TSIs = TSI, Monitoring Opportunistic Behaviour = MOB;
- Production Strategy = PROD, Sales Contract = CONT, Pricing and Provisions = P&P, Billing and Dunning = B&D, Inventory Ownership = INV, Demos = DEMO, Data Ownership = DATA;
- TF = theoretical framework, EF = empirical framework;
- ↑ = increase in TCs, ↓ = decrease in TCs.

The concluding segment of the interview focused on elucidating fundamental concepts, ambiguous jargon, and particular allusions to commercial material that, according to the Author's perspective, required clarification. Additionally, the final divide was allocated for the

inclusion of hyperlinks, remarks, and viewpoints regarding interventions made by the remaining interviewees, at the discretion of the Author.

Secondary data sources

The present investigation involved the acquisition of secondary data from multiple consulting reports pertaining to the automotive sector, authored by reputable firms such as BCG, Roland Berger, Capgemini, Deloitte, and Strategy&. The aforementioned reports were subjected to scrutiny in order to obtain valuable insights pertaining to the agency distribution model and its comparative transaction-cost effectiveness vis-à-vis the dealership distribution model. The reports were chosen based on their established reputation and demonstrated expertise within the relevant industry.

The primary data collected from interviews with key personnel at Penske Automotive Italy was triangulated and analysed. The utilisation of secondary data derived from consulting reports facilitated a more comprehensive comprehension of the industry and aided in situating the primary data obtained within its appropriate context. The reports furnished significant perspectives on the current trends, obstacles, and optimal approaches within the industry that were pertinent to the research inquiry.

Data collection process and challenges

First and foremost, the Author was required to establish a trustworthy relationship with Penske Automotive in order to obtain access to the requisite data.

Also, ensuring the accuracy and reliability of collected data was a requirement for the Author. The process necessitated the verification of accuracy by cross-referencing information from various sources. Member checking proved to be a valuable method.

The utilisation of member checking is a qualitative research methodology aimed at bolstering the credibility and validity of the outcomes by corroborating them with the study participants. The method entails providing the subjects with a condensed version of the investigator's analysis of their information, including patterns, groupings, and deductions, and soliciting their input. The provision of feedback can serve to disambiguate any misconceptions, rectify any inaccuracies, or corroborate the results, thereby enhancing the veracity of the investigation. The process was in this case carried out via email.

In order to address the potential issue of sampling bias, the Author also adopted a strategy of collecting data from a diverse array of sources and stakeholders, too, as opposed to solely conducting interviews with sales managers.

As far as the limitations of time and resources are concerned, the process of conducting a comprehensive case study demands a substantial investment of both time and resources. The Author was required to exercise prudent time and resource management skills in order to facilitate the efficient collection and analysis of data.

Finally, the use of subjective interpretations is a prominent feature of qualitative research, which may be susceptible to the researcher's personal biases and perspectives. In order to reduce the potential risk, the Author proactively sought the input of several managers to conduct a thorough analysis of the data and validate the accuracy of their findings through a consensus-based approach.

Data reduction, summarization, and interpretation

The initial stages of the research involved conducting a thorough review of the data sources, namely interviews and consulting reports, followed by the identification of pertinent information that was crucial for data reduction, summarization, and interpretation.

Subsequently, the collected data underwent a process of thematic or categorical organisation, with the aim of identifying recurring themes or patterns across the various sources. The findings were then supported by the use of quotes and visual aids.

Ultimately, the data was analysed and interpreted using personal insights and expertise to draw conclusions regarding the transaction-cost effectiveness of the automotive agency distribution model in comparison to the dealership distribution model.

5. Results

5.1. Penske Automotive Italy

Penske Automotive Group is a publicly traded entity that functions as an automotive retailer, transportation hub and racing team, with a global network of automotive dealerships under its purview. The establishment of the corporation occurred in the year 1990, with its main office located in Bloomfield Hills, Michigan, situated in the United States of America. The Penske Automotive Group retails a diverse range of both new and pre-owned automobiles, encompassing high-end marques such as Porsche, BMW, and Lexus, in addition to more economical brands such as Ford, Honda, and Toyota. Apart from the sale of automobiles, the corporation provides a variety of automotive amenities such as maintenance and repair, sales of parts, and financing and insurance services. Penske Automotive Group maintains a worldwide footprint, operating dealerships across the United States, Canada, and Western Europe (Penske Automotive Group, 2023).

Penske's culture rotates around the team spirit of highly skilled individuals who work in a collaborative environment and are challenged to make a difference in their posts. The company fosters an entrepreneurial spirit all across its structure, pointing to a strong focus on customer service (Penske Automotive Italy, 2023).

Penske Automotive has a global presence spanning four continents and nine countries, encompassing a total of 321 retail automotive establishments. Among these, 304 are franchised automotive dealerships, while the remaining 17 are used vehicle SuperCentres. Furthermore, it is noteworthy that the corporation possesses a total of 30 collision centres and 25 North American commercial truck dealerships, which accounts for 28.9% of Penske Transportation Solutions. The Group's range of activities is complemented by the distribution of commercial truck and power systems in Australia and New Zealand (Penske Automotive Italy, 2023).

Overall, the Group retails around 500'000 new and used vehicles annually, with roughly one vehicle retailer every minute and an average ratio used-to-new of approximately 1.1-1. Plus, across more than 4'500 service bays, the company writes over 4 million repair orders annually (over 12'500 per day) (Penske Automotive Italy, 2023).

As far as the geographical and brand diversification of the brand is concerned, the latter is present in the USA, Canada, Puerto Rico, Australia, New Zealand, Italy, Spain, the UK, Germany and Japan. Specifically, the brand mix in Italy is as showed Table 4 (Penske Automotive Italy, 2023).

Penske Automotive Italy is located in the core of the Motor Valley and to date it boasts of 21 locations, 26 franchises and 4 body shops in Northern Italy, subdivided as follows in two regions: in Emilia-Romagna, 17 locations bearing 20 franchises; in Lombardy, 4 locations and 6 franchises. These premises serve the premium-luxury segment with franchises from Audi, BMW, MINI, Mercedes-Benz, Smart, Porsche, Jaguar, Land Rover, Volvo, Lamborghini and Maserati. With a turnover of 610 million in 2021 and 630 employees, the holding ranks 4th in turnover in Italy in the special ranking of auto Dealer Group curated annually by Italia Bilanci, and 1st in the premium-luxury segment (Penske Automotive Italy, 2023).

The company's management is subdivided both on a brand-based and on a function-based criteria.

Regional Management is composed by Dealer Managers for the companies AutoVanti and BluVanti (BMW, MINI, Maserati), StarEmilia (Mercedes-Benz, Smart), Vanti Quattro (Audi), Bologna Premium (Jaguar, Land Rover, Volvo, Lamborghini), Vanti Sport (Porsche). All of them are part of the Dealer Operations Board (DOB), with a specific cause to dedicate to (e.g., marketing) (Penske Automotive Italy, 2023).

Corporate Management is instead composed of roles as CEO, CFO, Head of Administration and Dealership Controlling, Group Corporate Marketing and Communication Manager, Group Retail Marketing Manager, Head of HR, Health and Safety Manager, Fleet Manager, Chief Technology Officer (Penske Automotive Italy, 2023).

Penske Automotive Italy completes its range of businesses with PenskeCars Service (Penske Automotive Italy, 2023).

5.2. Evidence on New Upstream and Downstream Roles

Dealer (agent) role

According to the standard sales model in the auto industry, the dealer or agent runs a separatefirm and buys cars at wholesale prices from the manufacturer. After making a markup to covercosts and turn a profit, the dealer then sells these vehicles to customers at retail prices (Mantellini, 2023).

However, in the agency sales model, the agent works as an extension of the sales team of the automakers and conducts business under the OEM's name. In this scenario, the agent sells vehicles on behalf of the automaker rather than buying them from the upstream.

Specifically, the OEM sets the retail price of the automobiles and pays a commission for each vehicle sold (Capgemini Invent, 2020).

Deloitte highlighted the point that the many industry opinion leaders have made on the rising importance of sales capacity, service level, and customer experience quality in this regard. Eventhough this means that sales representatives' roles will continue to be important in client relationships, these roles will nonetheless need to change as a result of rising market competition and an overall rise in distribution costs.

For current dealers, all this will result in the need to oversee and further strengthen the partnership relationship with the brand they represent, leveraging on its ability to establish and consolidate over time a relationship of trust with the customer base. Data harvested during Deloitte's Global Automotive Consumer Study of 2022 indeed show that, when asked about the "where" they intend to buy the next vehicle, for example, more than 8 out of 10 Italian consumers cite an authorized or independent dealership; and this figure appears even more significant when compared to the extremely residual share (5%) of those who would turn directly to the manufacturer (OEM) (Deloitte Creative Team - Italy, 2022). Also, customers find great value in "touching and feeling" the vehicle (24 percent), taking it for a test drive (23 percent), and dealing with a sales consultant face-to-face (15 percent), according to a survey by Accenture. These elements of the customer journey are difficult to replicate online (Accenture, 2019).

This evident preference represents not only a long-established habit but also a "trust heritage"that dealers may still capitalize on and strengthen to defend their position in a future with moreextensive disintermediation.

Alessandro Ravaglia, MINI Sales Manager at AutoVanti S.r.l., a Penske Automotive Dealership, expressed in siege of an interview that he deems ability of the OEM to maintain greater control over the sales process and the customer experience is one of the agency sales model's core benefits. The OEM can establish and enforce sales standards and procedures that guarantee a consistent customer experience across all sales channels because the agent is conducting business under the carmaker's brand (Ravaglia, 2023).

The agency sales model does have some ramifications for transaction costs, though. The commission given to the agent is one of the major expenses. The retail price of the vehicle mustbe high enough to cover this expense because the OEM is responsible for paying the commission. Customers may pay higher prices as a result, and the producer may find it harder

to compete with dealers who use the conventional sales strategy.The cost of managing the relationship between the OEM and the agent is another transaction cost connected to the agency sales model. Since the agent is conducting business on behalf of the carmaker, the latter must devote resources to training and assisting the agent in order to ensure that they are properly representing the brand (Setti, 2023). To ensure that the partnership is lucrativefor both parties, the carmaker must also create clear lines of communication and set expectations with the agent (Longo, 2023).

In general, an OEM may effectively maintain control over the sales process and the customer experience using the agency sales model. To make sure that this model is a lucrative and long-term strategy for the company, it is crucial to carefully evaluate the implications of transaction costs.

OEM role

The OEM (original equipment manufacturer) sells its automobiles to dealers, who then resell them to end customers, according to a conventional sales model in the automotive industry, one based on a dealership network. In this arrangement, the dealer serves as a mediator between the brand and the customer, facilitating indirect engagement (Longo, 2023). In contrast, the OEM interacts directly with the buyer while using the agency sales approach to market its vehicles. In this arrangement, the agent represents the carmaker and has the power to negotiate and seal deals with clients (Mantellini, 2023).

The role of the OEM and the associated transaction expenses in the sales process are some of the effects of the switch to the agency sales model.

First off, the OEM has more control over the sales process and may build more direct ties withclients under the agency sales model. Additionally, due to evolving preference factors, it is necessary to combine the physical channel with the internet one (e.g., through applications, corporate websites, and configuration platforms for virtual (VR) and augmented reality (AR)) (Longo, 2023) through a sales agent who, working directly for the OEM, makes the relationship disintermediated from the model based on dealers (Deloitte Creative Team - Italy, 2022). This enables the OEM to learn more about consumer preferences and behaviour, which can aid in the creation of new products and marketing campaigns. Furthermore, the OEM has more authority over pricing and distribution, which can aid in lowering transaction costs related to dealing with dealers.

Secondly, the agency sales model can help to reduce transaction costs associated with dealer relationships. In the traditional sales model, the OEM may face challenges in managing relationships with a large number of dealers, each with their own preferences and business models (Mantellini, 2023). This can lead to transaction costs associated with negotiating contracts, resolving disputes, and monitoring dealer performance (Setti, 2023). In contrast, the agency salesmodel allows the OEM to establish a smaller number of relationships with agents, who are responsible for managing relationships with customers (Deloitte Creative Team - Italy, 2022).This can help to reduce transaction costs associated with managing dealer relationships.

However, there are also potential drawbacks to the agency sales model. Firstly, the OEM may face challenges in finding and retaining high-quality agents who are able to effectively represent the brand and sell vehicles (Ravaglia, 2023). Secondly, the agency sales model involves greater investment in marketing and sales activities, which can lead to higher fixed costs for the OEM (Mantellini, 2023). Additionally, the agency sales model may require significant changes to the existing organizational structure of the OEM, including the establishment of new sales channels and training of personnel (Setti, 2023).

Overall, the shift to the agency sales model in the automotive industry has implications for therole of the OEM and the transaction costs involved in the sales process. While this model can help to reduce transaction costs associated with dealer relationships and provide greater controlover the sales process, it also involves significant investment and may require changes to the existing organizational structure of the OEM.

Pilot projects to assess risks and opportunities

Several OEMs in the automotive industry are presently carrying out trial runs of their agency model distribution approach. The tests entail the utilisation of specific subsidiaries, individual products within their assortment, or focused geographic regions.

The BMW Group declared the commencement of a pilot programme for agency sales with the MINI brand in 2019. The corporation initiated a programme in China to experiment with a novel sales strategy, citing the need to adapt to changing consumer inclinations and demands. smart has chosen "Model #1" as a product to be marketed under agency conditions starting in 2023 (Setti, 2023). In contrast, the Chinese group Geely has taken control of smart, while Mercedes-Benz has initiated its agency sales operations in the relatively smaller markets of Europe and other regions, such as Sweden, Austria, and South Africa (Mercedes-Benz,

2021).

Undertaking preliminary assessments of agency sales through targeted pilot brand or pilot market pilot tests can aid automotive OEMs in minimizing risk while assessing the effectiveness of a new agency sales strategy, utilizing diverse methods. At the outset, it ensures a limited degree of visibility. OEMs employ risk mitigation strategies in response to the new agency sales model by restricting their exposure through the careful selection of specific brands or markets. Setti posits that this methodology allows individuals to evaluate the impact of the innovative model without fully committing to it. The controlled implementation of the novel agency sales model enables producers to efficiently oversee and regulate the effects of the new model on sales, customer experience, and profitability (Setti, 2023). As Mercedes-Benz has asserted, a controlled environment is created (Mercedes-Benz, 2021), thereby resulting in the aforementioned outcome. Penske Automotive Italy's CHRO suggests that it would be advantageous to address any potential issues through identification and resolution before expanding the new model to a broader market or range of products (Setti, 2023). The implementation of pilot-testing can provide mother houses with valuable insights and knowledge pertaining to the effectiveness of the innovative agency sales model. Hence, Mantellini suggests that it can be advantageous to refine the model and effectuate requisite modifications prior to its expansion (Mantellini, 2023).

Pilot projects, as exemplified by BMW Group and Mercedes-Benz AG, have the potential to decrease transaction costs in comparison to an abrupt and complete transition from thetraditional sales model to the new model, in various ways. This is particularly relevant in terms of expenses. Mantellini conjectures that pilot-testing is a viable and cost-effective approach that OEMs can employ to manage risks that are inherent in the process of transitioning to a new model (Mantellini, 2023). Through the implementation of a smaller-scale trial, OEMs can mitigate the financial investment required and mitigate potential negative impacts associated with the introduction of a new model. Moreover, the implementation of a controlled environment is linked to the benefit of timely identification of potential issues. Setti suggests that performing a pilot test of the novel model can aid producers in identifying any possible difficulties or obstacles in the initial stages, thereby reducing the likelihood of incurring significant costs in resolving these issues at a later stage (Setti, 2023). The previously mentioned results lead to an overall improvement in scalability. Vehicle producers possess the capability to improve and optimize a specific model before extending its reach to a wider market or range of products. This measure has the potential to enhance the efficiency of the

transition process and reduce the likelihood of costly mistakes or miscalculations.

5.3. Strategic Transaction-Cost Evaluation of Agency Sales

Production strategy

The changing consumer expectations and the introduction of new technologies, such as electric and autonomous vehicles (Capgemini Invent, 2020), will significantly impact the production strategy of automotive OEMs in the near future. To accommodate these changes, automotive OEMs will have to adopt a more flexible and efficient production strategy that is more responsive to customer demands and changing market conditions (Setti, 2023). Specifically, chip shortages,the transportation crisis, the environmental regulation boom and consequently the high cost of components are what has most endangered this industry in the recent years.

According to predictions from BloombergNEF, larger vehicles like electric sedans and SUVs will become as affordable to produce as petrol and diesel models by 2026, with small cars crossing the threshold the following year – reports The Guardian (Partridge, 2021). Nevertheless, one of the current main challenges for automotive OEMs is indeed the increased complexity of producing electric and autonomous vehicles, which require different manufacturing processes and materials than traditional vehicles. To address this, OEMs will need to invest in new technologies and infrastructure, such as advanced robotics and automation, to streamline their production processes and reduce costs (Mantellini, 2023). In addition, automotive OEMs will need to adopt a more customer-centric approach to production, focusing on mass customization rather than mass production (Longo, 2023).

In this regard, in course of an interview on the agency distribution model, Stefano Setti, former Global HR Business Partner Commercial at Maserati SpA and current Head of Human Resources at Penske Automotive Italy, reported radical changes are occurring in the way carmakers plan to satisfy worldwide demand for their products. The new logic stands in producing vehicles on demand and in smaller batches, rather than in large, pre-determined, cost-covering quantities.

> *"Let's consider – say – BMW or Mercedes Benz factories in Germany. Thepast and current production strategy saw production volumes being determined on a cost-coverage perspective. Under the traditional logic, if –say – 2000 cars are needed to cover the fixed costs of several factories, then – say – 2500 cars are*

produced to gain a margin on production, notwithstanding market demand, which is generally much lower. This means the "delta" between cars supplied and cars demanded ends up as demo cars or zero-mileage 'used' cars. These are stocked at the numerousdealerships in the different markets, for customers to buy at discount without order-processing. Hence, a considerable part of the products' value vanishes – e.g., a car worth 50'000€ could be sold at 48'000€ after some time in stock; then, a little discount is maybe applied to the customerto push the sale and the final selling price amounts to 45'000€. This valueerosion is a substantial part of the so-called 'cost of retail', which hugely impacts on OEMs profitability."

This will allow OEMs to respond quickly to changing consumer demands and market conditions, while minimizing inventory costs and improving overall efficiency.

"Post-COVID, instead, customer demand was the driver of volume and if the market asked for 500'000 cars, then only that quantity is produced andfirms which costs cannot be covered by that number of cars are closed.

This fosters economies in production, inventory, and retail at the sametime, which is inevitable in a period of intense R&D like this."

To achieve these goals, Setti claims automotive OEMs need to leverage data and analytics to gain insights into consumer preferences and market trends and optimize their production processes accordingly (Setti, 2023). This approach diminishes transaction cost expenditure notonly because it entails the OEM vertically absorb the control on data, which are hence processed directly, without intermediation and potentially more precisely.

The agency model allows for a reduction in cost of retail – i.e., the cost of selling cars to the dealership network and have them resell their products to the public – that derives from doublemarginalization. Namely, part of the dealers sales margin will most likely be taken by the carmaker, bringing the profit from around 15% (varying from brand to brand) to roughly 6-7%(Mantellini, 2023), according to Andrea Mantellini, Penske Automotive Italy's CEO. Moreover, in 2022, an article by Stretegy& had reported a complete adoption of an agency model might result in 10% in savings and a 1.5% to 3% increase in profitability, yielding reductions in sales expenses and an improvement in the NSC's ROS (Gissler & Hoffmann, 2022). Clearly, this is tightly linked to a reduction in dealer provisions, at the net of an increase in cost bearings by the mother house, as described in "Pricing and ns".

The change in production strategy from a cost-coverage perspective to a demand-driven approach can be seen as a shift from a transaction-cost perspective, based on minimizing

production costs, to a value-based perspective, focused on satisfying customer demand. According to TCT, firms minimize their costs by minimizing the number oftransactions they engage in and the associated transaction costs (Williamson, 1989). In the context of production, this means producing in large quantities to minimize per-unit productioncosts and reduce the number of transactions required to meet demand.

In fact, in "Transaction Cost Economics: The Governance of Contractual Relations," Oliver E.Williamson explains that firms seek to minimize transaction costs by internalizing certain activities and avoiding the use of external markets, which can be costly and unreliable. This isbecause each transaction requires specific investments in communication, coordination, and governance, which can be costly and difficult to manage. By minimizing the number of transactions they engage in and reducing the associated transaction costs, firms can become more efficient and profitable (Williamson, 1989).

However, the demand-driven approach adopted post-COVID is based on the assumption that the costs of carrying excess inventory and the associated value erosion outweigh the benefits of producing in large quantities to minimize per-unit production costs. This can be seen as a shift towards a value-based perspective that prioritizes customer demand and seeks to minimizethe costs associated with carrying excess inventory and the value erosion associated with discounting.

In this sense, the shift in production strategy can be seen as a move towards reducingtransaction costs associated with carrying excess inventory and discounting, while increasing value by producing only what is demanded by the market. This can lead to more efficient production, inventory management, and retail, as well as higher overall profitability for OEMs.

Analysing the individual transaction-cost theory determinants, more specific aspects emerge.

Coordination costs and problems – No relevant impacts have been registered in siege of interviews conducted to Penske Automotive Italy’s managers.

Intellectual property rights protection and dissemination risk – No relevant impacts have beenregistered in siege of interviews conducted to Penske Automotive Italy’s managers.

Environmental uncertainty – The agency sales model's production strategy, which entails equating production with market demand, has the capacity to decrease transaction costs associated with environmental uncertainty when compared to the dealership distribution model.

The rationale behind the agency model lies in its ability to be highly responsive to fluctuations in market demand. This is achieved through the manufacturer's capacity to adapt production in accordance with the evolving needs of customers. The dealership distribution model is characterised by the production of automobiles in anticipation of demand. This approach may lead to surplus inventory and increased expenses associated with storage, administration, and possible losses stemming from unsold inventory (Alberti, 2023). The evaluation shall take into consideration the fact that the agency sales model entails the carmaker holding the stock instead of the dealer.This aspect provides a clear explanation for the cost implications associated with a shift in production strategy. The implementation of a zero-discount policy on make-to-order vehicles can effectively mitigate pricing uncertainty and variability across various dealerships, thereby optimising the agency sales model. The implementation of a standardised pricing system can potentially facilitate the process of price comparison among customers and mitigate the probability of customers being dissuaded by pricing inconsistencies across different markets.

Information acquisition – No relevant impacts have been registered in siege of interviews conducted to Penske Automotive Italy's managers.

Transaction-specific investments (TSIs) – According to the DDM, dealerships frequently engage in substantial TSIs, which may include expenditures on marketing and training initiatives, with the aim of augmenting sales figures and fostering customer retention. Nonetheless, due to the absence of market demand-based production levels, dealerships may incur losses on their TSIs as they may be left with surplus inventory or unsold stock (Longo, 2023). Conversely, the ADM approach ensures that production is matched with market demand, thereby mitigating the likelihood of surplus inventory and the consequent losses on TSIs. The aforementioned proposition may potentially increase the likelihood of dealerships being inclined towards investing in marketing, training, and other TSIs, as it reduces the probabilityof them being left with unsold inventory (Alberti, 2023).

Monitoring due to opportunistic behaviour – The dealership distribution model may result in carmakers having restricted control over the conduct of their dealerships, which could create opportunities for opportunistic behaviour, such as the over-ordering of inventory to secure greater discounts or the sale of competing brands. Consequently, the surveillance of these behaviours necessitates a substantial amount of resources and expenses. The agency sales model provides enhanced regulation over the production and distribution procedures, as the automaker maintains possession of the inventory until it is vended to the ultimate consumer

(Alberti, 2023).

This practise diminishes the likelihood of dealerships engaging in opportunistic conduct and facilitates more straightforward oversight and regulation by the automaker. The ADM ensuresthat production is aligned with market demand, thereby minimising the necessity of monitoringinventory levels and associated transactions. This results in a decrease in transaction costs associated with monitoring opportunistic behaviour.

Table 5 resumes the findings of the considerations above.

Sales contract

Automotive OEMs sell cars to independent dealers, who then resell them to clients, accordingto the standard sales model. In this model, the dealer is solely responsible for ensuring that theconsumer is satisfied with the product and the OEM does not have a direct contractual relationship with the customer (Ravaglia, 2023).

The OEM, however, has a direct contractual relationship with the buyer under the agency salesmodel. In this approach, the agent functions as an extension of the OEM's sales team, and the OEM determines the vehicle's suggested retail price (Longo, 2023). Since the OEM sells cars directly to customers, it is more accountable for the customers' happiness with the final product.

This indeed mirrors Stefano Setti's answer to being asked how dealerships will measure the success of the agency transformation, namely:

> *"Very simply, CSI. Test drives and deliveries will be the hotspots of the customer journey on which distributors will need to leverage." (Setti, 2023)*

The ability of the OEM to maintain more control over the client experience is one of the agencysales model's core benefits. The OEM may establish and enforce customer service standards that guarantee a consistent customer experience across all sales channels since they have a direct contractual relationship with the consumer.

In this regard, Simone Longo underlines how the quantitative objectives by the mother hose won't disappear, but they will be strongly sided by CSI standards, with a 30% of sales online in less than 10 years according to Mercedes-Benz plans. This implies customers choose where to have their car delivered depending on quality, rather than price. In this sense, big demographic areas are being held in high regard by automakers (Longo, 2023).

The ADM does, however, have some transaction cost concerns. The increasing complexity ofmanaging the direct contractual relationship with the consumer is one of the major costs. Since the OEM is now in charge of providing customer care and support, it must spend money on educating and assisting its customer service team in order to ensure that they can manage customer relationships successfully (Setti, 2023).

Additionally, the OEM may incur higher liabilities and legal expenses as a result of its direct contractual relationship with the consumer. The OEM may be held accountable for any flaws or problems with the product because it is now in charge of ensuring customer satisfaction (Longo, 2023). This may result in higher legal fees and perhaps damages.

In general, an OEM may keep more control over the client experience and raise customer satisfaction by using the agency sales model. To make sure that this model is a lucrative and long-term strategy for the company, it is crucial to carefully evaluate the consequences of transaction costs. The costs of managing the direct contractual connection with the client, including additional complexity, responsibility, and legal expenses, must be weighed against the advantages of having more control over the customer experience.

There is existing Industrial Organisation academic literature that has explored some economicconsiderations in this regard, in the form of the impact of certain externalities on a vertical stream of business. For instance, “Industrial Organization” by Pepall, Richards, and Norman (2014) demonstrated how the separate production of complementary goods (such as the car and the car sales service) - each produced by a firm with monopoly power (i.e., for simplicity, the single-brand carmaker and the set of single-brand official dealers) - reduces the joint profit of the two firms and imposes an efficiency loss on both firms and consumers. As a result, each business's pricing choice results in an externality that affects the other firm. This externality may be eliminated by cooperation (vertical "merger") since both firms (upstream and downstream) will typically drop their prices and benefit. Consumers will be better off with expanded output, no matter the price (Pepall, Richards, & Norman, 2014). The latter is indeed the exact purpose of the agency model in terms of consumer perception. This mirrors that the agency sales model can help reduce transaction costs, as it improves information flow between the OEM and the customer, fostering efficiency.

Analysing the individual transaction-cost theory determinants, more specific aspects emerge.

Coordination costs and problems – The agency sales strategy will probably result in

higher OEM coordinating expenses. This is so because the OEM and the buyer have a direct contractual connection, making the OEM accountable for guaranteeing client happiness and resolving any difficulties that may emerge. The OEM has more influence on the sales process and the customer experience under the agency sales model. However, this also implies that the OEM is more accountable for making sure that everything proceeds according to plan (Longo, 2023). Because the OEM must work with agents to guarantee that the customer's demands are satisfied, this may lead to greater coordination costs. A large expenditure in advertising and other promotional efforts may be necessary for the OEM to cover the expenses of selling and promoting its products directly to consumers (Mantellini, 2023). Overall, the agency sales approach could cost the OEM more to coordinate, but it might also provide them more power over the sales process and a better connection to their clients.

Intellectual property rights protection and dissemination risk – The OEM can have more control over the distribution of its intellectual property under the agency sales model since thereis a direct contractual link between the OEM and the client. Since it is the one selling directly to the end user, the OEM can more effectively defend its intellectual property rights and guarantee that its goods are not duplicated or faked by unauthorised third parties. Additionally, the agency sales model gives the OEM more sway over the branding and price of its products. The OEM can guarantee that its products are sold at a constant price and promoted in a way that is consistent with the OEM's brand and reputation since it sets the suggested retail price and is in charge of the customer's happiness. On the other side, because the OEM could have less control over the resale of its products, the conventional dealership model may increase the danger of unauthorised disclosure of the OEM's intellectual property. Vehicles may be altered or rebranded by dealers, which may have a detrimental effect on the OEM's intellectual property rights and weaken its brand.

Environmental uncertainty – The OEM has a direct contractual relationship with the customer in the agency sales model, which gives it more control over the sales process and lowers environmental uncertainty (Longo, 2023). This strategy gives the OEM more control over the marketing and sales process, lowering the risk associated with external variables like shifting consumer tastesor unstable economic situations.

Information acquisition – The OEM may save funds on information collection costs by using the agency sales approach. Since the OEM has a direct line to the client, it may learn more about their preferences and requirements. Designing better products and services that satisfy consumer wants can be done using this information. In contrast, the OEM may only

have limited access to the customer information collected under the normal sales model, which is the sole responsibility of the dealer (Fattore, 2023).

Transaction-specific investments (TSIs) – The agency sales model alters the structure of the relationship between the OEM and the customer, which can have a major influence on transaction costs associated with transaction-specific investments (TSIs). The OEM is not directly involved in the transaction-specific investments made by the dealer to deliver excellent customer service because, under the typical sales model, it is the dealer's responsibility to ensure customer satisfaction. However, with the agency sales model, the OEM is the one really selling the automobiles to the customers, and as a result, the OEM is far more in charge of making sure the customers are happy. To guarantee that customers are happy with their purchases, the OEM may need to make large transaction-specific investments in areas like customer service, quality control, and after-sales support (Alberti, 2023). Under the agency sales model, the OEM is directly in charge of making sure that customers are satisfied, thus it might be more eager to make these transaction-specific investments to lower the risk of customer discontent and unfavourable word-of-mouth (Ravaglia, 2023). In the near term, this may result in higher transaction costs, but over time, it may also boost client loyalty and sales volumes.

Monitoring due to opportunistic behaviour – The agency sales model can lower monitoring expenses brought on by opportunistic behaviour in a number of ways. First off, since the OEMand the customer are directly contractually related, the OEM can exert more control over the sales process and guarantee that the buyer's interests are safeguarded. This can lessen the possibility of independent dealers acting opportunistically and putting their own interests abovethose of the buyer (Ravaglia, 2023). As a result of the OEM's increased involvement in the sales process, contractual requirements may be monitored and enforced more effectively, lowering the chance of conflicts and the accompanying expenses of resolving them. Thirdly, the agency sales model can help lessen the information gap between buyers and sellers since the OEM is more likely to have access to comprehensive information about the product and its features. This can help make sure that buyers are well-informed and capable of making wise purchasing decisions.

Table 6 resumes the findings of the considerations above.

Pricing and provisions

The conventional sales model in the industry assigns the responsibility of price determination and discount management on individual sales to dealers. Discounts typically consist of either fixed or variable elements (Alberti, 2023). The fixed component is determined by the parent company and is contingent upon various factors such as the cost of the vehicle, which is predicated on the market segment, consumer demand, and customer demographics. As an illustration, it is noteworthy that a MINI 3-door One typically exhibits a lower discount compared to a MINI 5-door Cooper S, due to their distinct positioning. The variable component, typically amounting to 6% of the total, is determined by sales representatives and managers based on the attainment of annual targets and bonuses, as well as the dealer's overall margin (Ravaglia, 2023).

The agency sales model results in a shift in pricing methods, whereby the OEM assumes a more proactive role in determining the prices of vehicles. This is in contrast to other sales models, as agents are responsible for selling the automobiles at the prices set by the OEM (Setti, 2023). Clients have the possibility of obtaining price reductions or other forms of motivation from the carmaker, which are subsequently conveyed to them by the agent. In an intermediate version of the ADM, the agent receives a commission that is calculated based on the volumes, with any discounts provided being subtracted from the total amount. In a comprehensive agency relationship, the agent is entitled to a commission on the sale of the vehicle and may also receive a markup on additional products and services. Mantellini provided a practical illustration with idealised financials to demonstrate the disparity in provisions between the dealership and agency models (Mantellini, 2023).

> *"Within the former, of an imaginative €100 sales price of a car, the dealer pays – say – €80 to purchase it from the OEM, hence becoming the effective proprietor of the vehicle before selling it to the customer. The €20 difference is the dealer's margin of income, which varies depending on the discount accorded to the client. Within the latter instead, the OEM never loses ownership of the stock until it passes to the customer, as the dealer only works as an intermediary. Hence, consumers are granted no discount and pay €100 for the piece (a price defined by the mother house); conjointly, the dealer's income from the sale doesn't come as a margin, but rather as a provision, which is around €10 or less, compared to the*

aforementioned €20, hence leading to an approximate 10% profit increase for the OEM. According to current knowledge about the agency transition, a 50-60% decrease in per-sale provisions should be accounted for."

The OEM can lower the transaction costs related to controlling price and discounting by taking a more active role in pricing. To ensure pricing consistency across various sales channels, the producer might centralize pricing choices. Additionally, carmakers can leverage their market dominance to bargain for lower supplier prices and lower the cost of items supplied (Setti, 2023).

Under the agency sales model, however, altering price methods has adverse transaction cost effects as well. To manage price, for instance, the OEM must invest in systems and procedures that collect sales data and keep an eye on pricing changes. To make sure that sales representatives are abiding by pricing policies and not participating in price discrimination, the automaker may also need to train and assist them (Setti, 2023).

However, it should be noted that the aforementioned illustration only accounts for a marginal portion of the supplementary expenses incurred by the agency model in the automobile industry, specifically pertaining to a profit escalation of approximately €10 (figuratively). According to the Managing Directors of Penske Automotive Italy, Elena Alberti and Andrea Mantellini, there are four primary costs associated with mother houses that result in cost reductions for dealers (Alberti, 2023) (Mantellini, 2023).

1. Human resources training, necessary to assimilate functions previously assigned to dealers and guide the transition to the new sales model. In 2021, Maserati SpA already started an internal program with dedicated teams for agency sales transformation (Setti, 2023);
2. The internalisation of marketing, to enhance coordination of brand perception across various markets;
3. The cost of processing individual customer transactions instead of receiving periodic billings from downstream dealers;
4. Insuring stocks is a significant financial burden for dealers, making insurance a vital area of concern;
5. The matriculation of demo cars;
6. The floor-plan interest, which is granted by the financial departments of parent

companies (e.g., Mercedes-Benz Financial Services or Volkswagen Bank), is a critical aspect to consider.

Despite the significant alteration in the cost structure for original equipment manufacturers (OEMs), the latter only results in a marginal rise of 2 to 3% in expenditures. Therefore, after deducting expenses, the original equipment manufacturer experiences a profit increase of 7-8%.

From the perspective of the dealer, it is common for the dealership model in premium brands to have a variable margin of around 20%. However, with the ADM, this margin decreases to 10% and takes the form of a provision rather than a margin. Assuming as an instance that structural costs are estimated to account for 12% of the retail price, it can be inferred that a 2% loss has been incurred. According to Mantellini's interview in 2023, the transfer of functions to the OEM results in a recoupment of 1% of costs, while the remaining 1% necessitates that retailers like Penske Automotive Italy enhance their firms' efficiencies (Mantellini, 2023). The proposed means of achieving this enhancement involves the reduction of administrative, back-office, commercial BDC, and sales personnel (Alberti, 2023) (Setti, 2023). This objective will be facilitated by refraining from replacing retiring staff members, while also implementing job rotation practises within the organisation, as specified by the CEO during interviews (Mantellini, 2023).

These variations in the cost structure of both OEMS and dealers imply severe differences in pricing and provision strategies vertically. According to literature by Coase, Williamson, and Hennart, changes in price and dealer compensation between the two sales models can have an effect on a number of transaction costs. These expenses comprise:

- Information costs: The conventional dealership model needs dealerships to gather and keep data on consumer preferences, regional market circumstances, and competitive pricing because they are in charge of setting prices and managing discounts on individual sales. The OEM is in charge of deciding car prices and discounts under the agency model, which eliminates the need for dealerships to gather and keep this information.
- Contracting costs: Under the conventional paradigm, contracts might be established and maintained at a large expense to dealerships and manufacturers, including legal fees, communication costs, and the possibility of contract violations. The manufacturer is in charge of all aspects of pricing and dealer compensation under the agency model, which

eliminates the need for agreements with middlemen.

- Monitoring costs: In order to maintain uniformity across numerous sales channels, the OEM may be required under the agency model to make investments in systems and practises that gather sales data and track price changes. To ensure pricing regulations are followed and stop price discrimination, the OEM may also need to train and support sales staff.

- Investment costs: The OEM may need to make investments in new systems and processes to gather and analyse sales data as well as centralise price choices toguarantee consistency across multiple sales channels in order to play a more active rolein pricing. To guarantee adherence to pricing regulations and prevent price discrimination, the OEM may also need to engage in training and support programmesfor sales personnel.

Analysing the individual transaction-cost theory determinants, more specific aspects emerge.

Coordination costs and problems – When there is a conflict of interest between the OEM and the agents, coordination issues could develop. For instance, the OEM might wish to raise prices to boost profits, whereas agents might choose to lower prices to draw clients and boost sales. Conflicts like these make it difficult to coordinate sales efforts between OEMs and agents, which can result in inconsistent pricing. The computation of commissions raises yet another possible coordination issue. According to the dealership sales model, the dealer's commission is calculated using the car's sale price less any discounts that were provided. Although discountsand incentives may come straight from the OEM in the agency sales model, the agent's commission is dependent on the sale price of the vehicle. This may lead to ambiguity when determining the agent's commission and conflict between agents and OEMs. However, one benefit is that by offering a more centralized pricing strategy, the agency sales model may be able to overcome coordination issues that develop in the dealership sales model. In fact, this significantly lowers coordination costs for balancing the impacts of taxes on demand, intra-market variation across various dealerships, and Bertrand competition inside an NSC's agents network (Alberti, 2023). Additionally, commissions can be assessed on a regular, proportional basis yielding a better aligned offer across agents.

Intellectual property rights protection and dissemination risk – Under the agency sales model, the OEM has more control over the pricing of their products, which can include intellectual property such as patents, trademarks, and trade secrets. By setting the price, the

OEM can ensure that their intellectual property is valued appropriately and protected from unauthorized use or dissemination. However, this centralized control can also limit the ability of agents to negotiate pricing and promote the product independently, which can impact dissemination risk and limit market reach. In terms of commission policy, the agency sales model can also impactthe dissemination risk of intellectual property. For example, if an agent is incentivized to sell additional goods and services alongside the car, there may be a greater risk of misrepresenting or misusing the intellectual property related to those products. On the other hand, a commission strategy that rewards agents for promoting the unique features and intellectual property of the car can help increase the dissemination of the OEM's intellectual property and protect it from infringement or misuse. Properly designed incentive structures and communication channels can help mitigate these issues and balance protection with dissemination goals.

Environmental uncertainty – The OEM sets the automobile costs in the agency sales model, which can lessen agents' environmental uncertainty. Agents do not need to be concerned aboutthe danger of price fluctuations that can occur as a result of changes in demand or supply situations because the OEM has better control over pricing (Fattore, 2023). By doing this, transaction costs brought on by environmental uncertainty can be decreased. However, host countries with strong price rules may find the agency sales model particularly advantageous. In thesesituations, the OEM can make sure that the rates are established in accordance with the rules, lowering the possibility of agents receiving fines or penalties. This can lower the transaction expenses related to various host nation circumstances. Depending on CSI, agents are paid a commission on a proportional basis (Setti, 2023). Agents may be encouraged to sell more automobiles and offer better customer service in order to improve their commissions in this way. The transaction costs related to sales may rise if the commission is too low since agents may not be motivated to sell the cars (Ravaglia, 2023).

Information acquisition – No relevant impacts have been registered in siege of interviews conducted to Penske Automotive Italy’s managers.

Transaction-specific investments (TSIs) – No relevant impacts have been registered in siege ofinterviews conducted to Penske Automotive Italy’s managers.

Monitoring due to opportunistic behaviour – First off, since the OEM determines automobile prices, there might be less motivation for salespeople to engage in opportunistic behaviour like overcharging clients or giving unapproved discounts. This is due to the possibility of reduced

commissions for the agent in the event that any divergence from the OEM's pricing plan occurs, which serves as a deterrent to such behaviour. Incentives for agents to prioritize sales and customer pleasure are provided by the commission-based payment system, which can lessen the risk of opportunistic behaviour. The agent has a financial interest in making sure that customers are happy with their purchase because their income is directly correlated to the sale price. In some instances, however, the agent may attempt to maximise their commission by offering additional products or services at inflated prices, which can increase transaction costs associated with monitoring due to opportunistic behaviour. Yet, Andrea Mantellini ruled out the possibility that this would have a significant impact on OEM cost reductions from an operational standpoint (Mantellini, 2023).

Table 7 resumes the findings of the considerations above.

Billing and dunning

In the traditional automobile sales strategy, dealerships buy vehicles from manufacturers and then sell them to consumers. Under this system, dealerships are in charge of invoicing clients and pursuing payment from them. While dealerships serve as the OEMs' representatives in theagency sales model, manufacturers sell cars directly to consumers.

Instead, OEMs are in charge of invoicing and consumer dunning under the agency model. TheOEM retains ownership of the car up until it is delivered to the consumer, with the dealership serving as a middleman to help with the sale and delivery of the vehicle. Dealerships under this model often are paid a commission for every transaction they help close.

The direct sales strategy used by Tesla is one illustration of the agency sales model in the automobile sector. Instead of using a network of dealerships, Tesla sells its electric automobilesdirectly to customers through its own storefronts. Due to this, Tesla continues to oversee all aspects of the transaction, including invoicing and dunning.

According to the research by Coase, Williamson, and Hennart, changes in billing and dunning between the two sales models may have an effect on a number of transaction costs. These expenses comprise:

- Information costs – In traditional dealership model, clients are invoiced by dealerships, who then pursue payment from them. Because of this, dealerships must keep precise records of client sales, credit standing, and payment history. Dealerships are not

required to keep these data under the agency model, as manufacturers (OEMs) are in charge of invoicing and consumer dunning.

- Contracting costs – Under the conventional paradigm, contracts might be established and maintained at a large expense to dealerships and manufacturers, including legal fees, communication costs, and the possibility of contract violations. Contrarily, the agency model eliminates the necessity for contracts with middlemen because the manufacturer is in charge of every part of the sale.
- Monitoring costs – Monitoring for compliance with sales quotas, price agreements, and other contractual obligations may be necessary for dealerships operating under the conventional model. The manufacturer is in charge of every part of the sale under the agency model, which eliminates the need to keep an eye on middlemen.
- Payment processing costs – The typical dealership model entrusts dealerships with the time-consuming and expensive task of seeking customer payments. In contrast, manufacturers are in charge of consumer dunning under the agency model, which eliminates the need for dealerships to go after customers for payments.

In general, many of the transaction expenses connected with the conventional dealership model can be decreased thanks to the shift in billing and dunning across the two sales models, especially information costs and payment processing costs (Alberti, 2023). However, if the manufacturer mustassure adherence to quality standards and other contractual requirements, it may also result in a rise in some costs, such as monitoring fees. The agency model may also need the manufacturer making investments in new systems and infrastructure to handle invoicing and customer dunning, which might raise fixed costs.

Analysing the individual transaction-cost theory determinants, more specific aspects emerge.

Coordination costs and problems – Under the conventional dealership distribution paradigm, the onus of invoicing customers and pursuing payment from them falls on the dealerships. The lack of real-time visibility into the status of each transaction can result in coordination issues between the dealership and the OEM. The aforementioned factors may lead to payment delays, invoicing disputes, and coordination challenges. On the other hand, in the agency sales model, the OEM bears the responsibility of invoicing and dunning customers directly. The implementation of this approach may potentially mitigate coordination issues between the dealership and the OEM, as the OEM assumes greater authority over the invoicing

and remittance procedures. Assuming responsibility for invoicing and dunning enables the OEM to guarantee the receipt of payments within a reasonable timeframe, thereby mitigating the likelihood of delays and disagreements. Additionally, as the dealership is not accountable for billing and dunning, it can concentrate on its fundamental strengths, including marketing (depending on the level of centralisation of the latter and the brand image of the retail groups like Penske Automotive Italy) (Longo, 2023), customer service, and vehicle delivery. The reduction of transaction costs associated with coordination issues can be facilitated by the dealership's ability to operate more efficiently andeffectively within its own area of expertise.

Intellectual property rights protection and dissemination risk – No relevant impacts have been registered in siege of interviews conducted to Penske Automotive Italy's managers.

Environmental uncertainty – Under the conventional dealership model, the dealership is responsible for billing customers and collecting payment. This can increase transaction costs related to environmental uncertainty because the dealership may not have the same level of expertise or incentive as the manufacturer to manage environmental risks, such as changing regulations or consumer demand for more environmentally friendly vehicles. In addition, the dealership may not have the same infrastructure or resources to respond to these threats in a timely and effective manner. In contrast, the manufacturer is directly responsible for billing and collection under the agency sales model. This enables the manufacturer to have greater control over the process and react more rapidly to environmental changes. For instance, if there is a shift in consumer demand for environmentally-friendly vehicles, the manufacturer can adjust their production and sales strategies rapidly to meet this demand (Setti, 2023). In addition, the manufacturer can use customer data gathered during the billing and collection processes to identify shifting consumer preferences and adjust their products accordingly, thereby further reducing transaction costs associated with environmental uncertainty.

Information acquisition – In the conventional dealership framework, the dealership bears the responsibility of generating invoices for customers and undertaking the task of collecting payments from them (Fattore, 2023). The aforementioned circumstance may result in supplementary transaction expenses associated with the procurement of information, given that the dealershipmay not possess an equivalent degree of access to customer data as the manufacturer. Moreover, it is possible that the dealership lacks the necessary resources or infrastructure to conduct a thorough analysis of this data, which could result in overlooked prospects for customer insights (Longo, 2023). On the contrary, the agency sales model assigns the task of invoicing and dunning to the manufacturer. This enables the manufacturer to gain

greater access to customerdata and utilise it for the purpose of information acquisition. Through the examination of customer data obtained during the invoicing and dunning procedures, the manufacturer can acquire significant knowledge regarding customer preferences and behaviour (Longo, 2023). This informationcan be utilised to inform product development, marketing strategies, and future sales endeavours. In addition, the manufacturer can decrease transaction costs associated with information acquisition by enhancing the precision and comprehensiveness of customer data through the direct management of invoicing and dunning. The implementation of this approach has the potential to reduce inaccuracies and exclusions in customer data, thereby enhancing theefficacy of data utilisation for information acquisition objectives.

Transaction-specific investments (TSIs) – Under the conventional business model, automotivedealerships procure automobiles from producers, necessitating a substantial initial outlay of capital for inventory. The act of investing in inventory can be classified as a transaction-specificinvestment, given that it is undertaken with the sole purpose of enabling the sale of a specific product, such as the vehicles in this case. After making an investment in the inventory, the dealership develops a vested interest in selling the vehicles and recuperating their investment (Alberti, 2023). The presence of a potential conflict of interest arises between the dealership and the OEMs, given that the dealership may possess a motivation to prioritise sales, regardless of whether it aligns with the best interests of the carmakers. In the context of agency sales, it is noteworthy that the OEMs maintain possession of the automobiles until they are ultimately transferred to the end user. This obviates the necessity for dealerships to allocate resources towards inventory and mitigates the potential for conflicts of interest (Mantellini, 2023). Consequently, it can lead to a decrease in the expenses incurred during the process of transferring service information for both the dealership and the producer. In addition, OEMs have the ability to mitigate the potential for payment defaults and disputes, thereby decreasing the transaction costs linked to TSIs, by managing billing and dunning processes internally (Fattore, 2023). The remuneration granted to dealerships inthe agency model can be subject to negotiation in order to achieve greater congruence with the objectives of the OEMs, thereby mitigating potential conflicts of interest (Mantellini, 2023).

Monitoring due to opportunistic behaviour – In the conventional distribution model employed by dealerships, the responsibility of invoicing and payment collection from customers falls under the purview of the dealerships. The possibility of a moral hazard issue arises in this scenario, as dealerships may be motivated to partake in opportunistic conduct

such as overcharging or other forms of opportunistic behaviour. This is due to the understanding that the OEM will ultimately bear the financial burden. On the contrary, the implementation of the agency sales model has the potential to alleviate some of these apprehensions. The delegation of invoicing and dunning responsibilities to OEMs confers upon them an advantageous vantagepoint from which to oversee the conduct of agents and guarantee that their actions align with the OEM's optimal interests. This measure has the potential to decrease the prevalence of opportunistic conduct and the resultant expenses incurred during transactions. Furthermore, through the provision of a commission to dealerships for each sale they facilitate, the agency sales model can foster a harmonisation of incentives between the OEM and the agent. Dealerships have a vested financial interest in the success of a vehicle sale, beyond the revenue generated from the markup. This incentivizes them to prioritise the best interests of the motherhouse (Mantellini, 2023).

Table 8 resumes the findings of the considerations above.

Ownership of inventories and supply stock access

In the context of a full-form ADM, it is worth noting that the carmaker retains ownership of allassets, including the stock of cars intended for sale to customers, demonstration cars, and expository cars, until a contractual agreement is reached between the carmaker and the customer. The OEM undertakes the responsibility of managing all billing and dunning procedures on behalf of the customer. According to Stefano Setti, it can be inferred that the automaker bears the responsibility of overseeing and possessing the associated hazards, which include funding charges and variations in market demand (Setti, 2023).

The partnership between Ford and its American dealerships serves as an exemplification of theapplication of the Agency Theory in the automotive industry. Ford retains control over all assets until a consumer enters into a contractual agreement to purchase a vehicle. Furthermore, Ford provides support to dealerships in terms of marketing and advertising, resulting in a reduction of their marketing expenditures.

According to Mantellini, the ADM exerts a significant impact on the accounts of both motherhouse and agent. The conventional sales model may impede dealers' ability to finance other aspects of their business due to the substantial amount of funds that are tied up in inventory (Mantellini, 2023). In contrast, the ADM entails that OEMs bear the cost of inventory finance,thereby enabling dealers to allocate their resources towards diversifying their business

operations. The potential outcome of this change is a reduction in dealers' earnings, as they will no longer have the opportunity to profit from financing their inventories.

The agency structure has the potential to impact the preparedness of an investor to extend debt financing (Alberti, 2023). Under the conventional sales strategy, dealers are obligated to finance their inventories, which can impose a significant financial burden (Fattore, 2023). Small dealerships may encounter reluctance from investors to extend loans. OEMs assume the responsibility of financing inventory and the associated risks, as they maintain inventory under the ADM while operating in a contrasting manner. Agents may experience ease in obtaining debt financing due to their exemption from the liabilities associated with inventory ownership (Mantellini, 2023).

However, Andrea Mantellini has aptly emphasised the potential consequences of releasing inventory from dealerships, which could lead to a decreased willingness among financiers to issue debt to major retail conglomerates such as Penske Automotive Italy. This, in turn, may result in a decline in the company's enterprise value and potentially lower solvency ratings (Mantellini, 2023).

The adoption of the producer has the potential to reduce certain expenses associated with the traditional sales approach, specifically in regards to transaction costs. OEMs exhibit superior capacity to regulate pricing and branding by maintaining inventory and engaging in direct customer interactions. Furthermore, they have the potential to reduce costs associated with inventory management by producing and distributing vehicles based on existing consumer demand.

The possession of automobiles, in turn, exerts a significant influence on the extent to which dealers can avail themselves of the inventory of vehicles they can provide to their customers (Ravaglia, 2023).

Under the traditional sales approach, dealerships are limited to their own inventory and quotas assigned by OEM, resulting in a constrained array of models and options available to customers. In the event that a potential buyer is searching for a specific model or option that is not readily available in the dealership's current inventory, or is not accessible due to the assigned quotas, it could result in lost sales opportunities. On the contrary, dealerships that operate under the ADM are granted access to the entire national OEM inventory, potentially offering buyers a wider range of options (Longo, 2023). According to Alessandro Ravaglia, the likelihood of finding the exact car that meets their requirements may lead to increased satisfaction and

loyalty among buyers (Ravaglia, 2023).

The potential impact of dealerships' access to the entire national OEM inventory on transaction costs is worth considering. Access to a larger inventory may enable dealerships to more effectively align customer demand with available vehicles, thereby reducing expenses associated with inventory management and transportation (Longo, 2023).

Overall, the agency distribution model's capacity to provide agents with access to the whole national OEM inventory may have a considerable impact on both customer satisfaction and transaction costs.

Analysing the individual transaction-cost theory determinants, more specific aspects emerge.

Coordination costs and problems – The ownership of to-client stock provides dealers with increased autonomy over their business operations. However, this may result in coordination issues with the car manufacturer, particularly in relation to inventory management, pricing strategies, and marketing efforts. In contrast, the agency sales model entails the car manufacturer maintaining ownership of all assets until a customer enters into a contractual agreement to purchase a vehicle (Alberti, 2023). The automotive manufacturer takes on the responsibility of overseeing and possessing the associated hazards, including funding expenses and variations in market exigency. By assuming greater authority over the sales process, the automotive manufacturer is able to mitigate coordination issues that may arise between itself and its agents,given that the agents function as proxies for the manufacturer (Setti, 2023).

Intellectual property rights protection and dissemination risk – No relevant impacts have beenregistered in siege of interviews conducted to Penske Automotive Italy’s managers.

Environmental uncertainty – The dealership distribution model entails that dealers possess ownership of the vehicles they vend, thereby exposing themselves to financial risks related to inventory management, financing fees, and market demand oscillations. The aforementioned ownership arrangement engenders a circumstance wherein dealers are motivated to prudently oversee their stock, opting for vehicles that are likely to be in high demand within their respective regions and eschewing those that are liable to remain unsold for a protracted duration. Nevertheless, this system engenders the possibility of overproduction by the manufacturer, thereby resulting in surplus inventory and the need to offer discounts on cars to expedite their sale from dealer lots (Mantellini, 2023). In contrast, the agency sales

model entails the carmanufacturer retaining ownership of all assets until a customer enters into a contractual agreement to purchase a vehicle. The aforementioned ownership arrangement results in a scenario wherein the manufacturer bears the onus of overseeing all billing and dunning protocols, while also mitigating associated hazards, such as financing charges and fluctuations in market exigencies. The present system engenders the possibility of reduced production output on the part of the manufacturer, thereby resulting in foregone sales and missed prospects. Nevertheless, this approach enables the manufacturer to retain more authority over the inventory and production procedures, facilitating the ability to adjust to fluctuations in market demand and environmental unpredictability.

The agency sales model may exhibit lower transaction costs compared to the dealership distribution model, with respect to environmental uncertainty and the requirement for adaptation. The manufacturer's ownership of inventory facilitates prompt and effortless adjustments to production and inventory levels in response toalterations in demand or other environmental factors. This approach has the potential to reduce expenses related to surplus inventory or revenue loss resulting from inadequate production (Mantellini, 2023). Furthermore, the centralised control exercised by the manufacturer over inventory and billing can potentially mitigate the transaction costs that arise from the coordination of multiple dealerships and the management of their respective inventories. Notwithstanding its advantages, the agency sales model may also entail certain disadvantages, including curtailed flexibility for dealers to tailor their stock to conform to local market conditions, and possibly elevated expenses for the manufacturer in overseeing the complete sales process (Ravaglia, 2023).

Information acquisition – Within the dealership distribution model, dealers bear the responsibility of procuring and managing data pertaining to their regional market circumstances, encompassing consumer predilections, competitive milieu, and variations in demand. The aforementioned data holds significant importance for dealers as it enables them to make well-informed decisions pertaining to inventory management, pricing, and marketing strategies. The decentralised method of obtaining information may lead to redundancy and possible inefficiencies in the event of multiple dealerships operating within the same market (Alberti, 2023). In contradistinction, the agency sales model entails the carmaker taking on the onus of overseeing and possessing the associated hazards, such as financing charges and oscillations in market demand. The adoption of a centralised approach enables the automobile manufacturer to enhance its information acquisition and processing capabilities, thereby

capitalising on economies of scale and potentially mitigating transaction costs linked to information acquisition. This information can be utilised by the automobile manufacturer to promptly and efficiently modify production and inventory levels in response to fluctuations in demand (Mantellini, 2023). Nonetheless, the agency sales model could entail certain disadvantages in terms of information acquisition. As the car manufacturer bears the responsibility of obtaining and analysing data, dealers may possess limited direct access to market information, thereby reducing their capacity to tailor their inventory and marketing approaches to suit regional market circumstances (Ravaglia, 2023). The outcome of this situation may lead to a decrease in the level of adaptability for dealers and a likelihood of overlooking prospects to take advantage of distinctive market circumstances or customer inclinations.

Transaction-specific investments (TSIs) – The agency sales model's ownership pattern can have various effects on transaction costs associated with TSIs in comparison to the dealership distribution model. Within the agency sales model, the automobile manufacturer maintains ownership of the vehicles until a consumer purchases them. This approach allows dealershipsto avoid the need to hold inventory and make significant investments in it. The reduction of transaction costs associated with contextual investments is observed for dealers. Conversely, within the dealership distribution framework, the dealers retain ownership of the inventory andare responsible for its upkeep, potentially resulting in increased transaction costs associated with TSIs. To illustrate, it is imperative for dealers to uphold a showroom, procure and sustaindemonstration vehicles, and allocate resources towards advertising and promotional efforts in order to entice potential clientele. It is imperative for agents to allocate resources towards staff training and development to guarantee the provision of superior service and comprehensive information regarding their inventory of automobiles (Alberti, 2023). The agency sales model involves the OEM taking on the responsibility of managing and owning associated risks, such as financing fees and market demand fluctuations. This approach can effectively decrease the transaction costs that dealers would otherwise incur in managing these risks. The dealership distribution model assigns the responsibility of financing inventory and bearing the risks associated with market demand fluctuations to dealers (Mantellini, 2023). This can result in increased transaction costs related to such risks.

Monitoring due to opportunistic behaviour – Given that the carmaker bears the responsibility of managing inventory risks in the context of the ADM, it is plausible that they possess a heightened motivation to oversee and forestall any opportunistic conduct that may result in

financial setbacks. The possibility exists that decreased transaction costs associated with monitoring could result from heightened vigilance on the part of the OEM in ensuring that all parties engaged in the transaction are conducting themselves in an appropriate manner. Conversely, within the framework of the dealership distribution model, the ownership of the vehicles sold to consumers is vested in the dealer, who maintains the inventory of said automobiles. The aforementioned statement implies that the dealer bears the responsibility of overseeing and possessing the risks that are linked to financing fees and fluctuations in market demand. Although the car manufacturer retains some level of supervision over the dealership's conduct, the dealership may have a reduced motivation to act in the best interest of the car manufacturer. The possibility exists that increased monitoring expenses may arise due to the need for the car manufacturer to allocate additional resources towards preventing any opportunistic conduct by the dealership, thereby resulting in higher transaction costs.

Table 9 resumes the findings of the considerations above.

Demo cars

The conventional sales approach entails dealers assuming responsibility for demonstration vehicles located at their respective dealerships, while at the same time imposing some fixed number of units to expose and make available for test-driving. Mother houses can require dealers to register both exceeding stock and brand-new vehicles for them to be used as demos (Ravaglia, 2023). Under diverse agency distribution models, the OEM may exercise even greater authority over demonstration vehicles.

In an intermediate form of agency distribution – i.e., what in this paper is referred to as agency (sales) model (Roland Berger, 2021) – the agent is provided with demo vehicles at favourablefinancing rates. As an illustration, the agent may be eligible for a reduction in the acquisition cost of demonstration vehicles or may be granted access to financing options with a comparatively lower interest rate than those available to the wider public (Ravaglia, 2023). Theprovision of incentives to the agent creates a motivation to increase the sales of vehicles, whichcould potentially lead to a more streamlined distribution process.

The OEM implements a more radical version of the agency strategy by directly guaranteeing the provision of demonstration vehicles to its dealerships worldwide. Tesla is recognised for its direct-to-consumer business model, which involves the online sale and direct delivery of itsautomobiles to consumers. Tesla's mobile application and showrooms enable

customers to testdrive vehicles prior to purchase, thereby obviating the necessity for dealerships to maintain on-site demo cars.

The intermediate form of agency distribution may offer greater efficiency in terms of transaction costs compared to the conventional sales model. This is due to the agent's motivation to increase car sales and ability to provide customers with more advantageous financing rates. Nevertheless, the OEM retains a degree of authority over the provision of demonstration vehicles, potentially leading to increased expenses associated with transactions as compared to a business model that directly serves the end consumer.

Analysing the individual transaction-cost theory determinants, more specific aspects emerge.

Coordination costs and problems – In the context of the dealership distribution model, it is thedealer who bears the responsibility for the demonstration vehicles situated at their dealership. Coordination issues may arise in cases where the dealer lacks sufficient motivation to adequately promote and sell the demonstration vehicles. The dealer's insufficient promotionalefforts towards the demo vehicles or inadequate maintenance of the vehicles for test-drives may result in suboptimal outcomes. The possibility exists that this may result in increased transaction costs associated with coordination, as the automobile manufacturer may be required to allocate additional resources towards ensuring appropriate management of the demonstration vehicles (Fattore, 2023). In contrast, when employing an intermediate form of agency distribution model, wherein the agent is furnished with demonstration vehicles at advantageous financing rates, theagent is more motivated to efficiently promote and vend the demo vehicles. The implementation of incentives for agents can serve as a driving force to enhance vehicle sales, thereby facilitating a more efficient distribution process. The possibility of decreased transaction costs associated with coordination arises due to the increased willingness of the agent to collaborate with the carmaker in order to ensure proper management of the demonstration vehicles.

Intellectual property rights protection and dissemination risk – No relevant impacts have beenregistered in siege of interviews conducted to Penske Automotive Italy’s managers.

Environmental uncertainty – No relevant impacts have been registered in siege of interviews conducted to Penske Automotive Italy’s managers.

Information acquisition – No relevant impacts have been registered in siege of interviews conducted to Penske Automotive Italy’s managers.

Transaction-specific investments (TSIs) – No relevant impacts have been registered in siege ofinterviews conducted to Penske Automotive Italy's managers.

Monitoring due to opportunistic behaviour – The implementation of demo car management within this framework is anticipated to yield favourable outcomes with respect to monitoring transaction costs associated with opportunistic conduct. The rationale behind providing incentives to agents is to induce them to act in the best interest of the OEM, thereby mitigating the likelihood of opportunistic conduct such as shirking, moral hazard, or adverse selection. In contrast, the dealership distribution model entails that the dealers bear the responsibility of managing the demonstration vehicles, while the brand may wield increased control over them (Ravaglia, 2023).The monitoring of opportunistic behaviour in this scenario may present greater challenges, as dealers may possess reduced motivation to advertise and distribute the vehicles (Fattore, 2023).

Table 10 resumes the findings of the considerations above.

Data ownership

The traditional sales strategy is characterized by the control and administration of customer information by individual dealerships, leading to incomplete and disjointed data compilations.The methodology mentioned above has the potential to result in less-than-optimal outcomes and higher costs for both the OEM and the retail establishments. In contrast to alternative approaches, agencies utilize a distribution model that concentrates data ownership with the producer (Longo, 2023). This approach has the potential to increase the availability of more comprehensive and precise data while potentially reducing transaction costs.

The utilization of the agency distribution model presents a significant advantage in the improvement of data management and promotion of collaborative efforts between the mother house and the dealerships. The centralization of data ownership enables OEMs to provide improved support to dealerships, such as optimized inventory management and accelerated decision-making procedures. The adoption of this methodology holds promise in alleviating the need for arduous manual processes, such as tangible record-keeping and data entry, consequently resulting in decreased transaction costs (Mantellini, 2023).

However, modifying the framework of data ownership could potentially pose challenges and associated costs. The possibility of resistance from dealerships in response to the transition away from traditional ownership and control of customer data is a significant

factor that warrants consideration. Moreover, the centralization of data ownership within the manufacturer could result in increased costs associated with data management and concerns regarding confidentiality.

In summary, modifying the ownership structure of data as described has the capability to reduce transaction expenses by improving data administration and collaboration. Nevertheless, it might face hindrances and potential costs. Further examination and assessment are necessary to fully appraise the impact of this approach on transaction costs in the automotive industry.

Coordination costs and problems – Under the conventional dealership distribution model, customer data is managed and governed by individual dealerships, resulting in fragmented and inadequate data aggregations (Longo, 2023). Frequently, this leads to suboptimal results and increasedexpenses for both the OEM and the retail establishments.The ownership of centralised data under the agency model facilitates enhanced support to dealerships by OEMs, leading to a reduction in transaction costs associated with manual record-keeping and data entry. Moreover, the data ownership structure of the agency model has the potential to foster collaborative endeavours between the principal firm and its affiliated dealerships, thereby resulting in enhanced decision-making, diminished information asymmetry, and superior communication. This approach has the potential to mitigate transaction costs associated with coordination challenges, as dealerships can establish a closer working relationship with the OEM to effectively identify and resolve issues. Nevertheless, altering the structure of data ownership may present difficulties and related expenses. The noteworthy factor of resistance from dealerships towards the shift away from conventional ownership and control of customer data merits careful consideration. Furthermore, the concentration of data ownership in the hands of the manufacturer may lead to elevated expenses linked to data administration and apprehensions concerning confidentiality. The agency sales mode of data ownership is anticipated to reduce transaction costs from a purely coordinative perspective.

Intellectual property rights protection and dissemination risk – Under the conventional dealership framework, customer data is managed and overseen by individual dealerships, thereby creating a potential for data breaches and unauthorised data disclosure, consequently elevating the likelihood of infringement of intellectual property rights. The aforementioned circumstance may lead to a rise in transactional expenditures, including but not limited to legal fees and harm to the mother house's reputation (Alberti, 2023). More than 3 million consumers in the United States and Canada had their contact information and, in certain circumstances,

personal information including driver licence numbers exposed in a data breach that affected Volkswagen and Audi in 2021. The adverse effect had a significant impact on the reputation of the group, resulting in repercussions on financial patterns (Valdes-Dapena, 2021). Conversely, the distribution model employed by agencies focuses on consolidating data ownership with the producer, thereby affording them greater control over the data and mitigating the likelihood of data breaches and violations of intellectual property rights.Through the centralization of data ownership, OEMs can guarantee that solely authorised personnel have access to and utilise data, thereby mitigating the likelihood of unauthorised datadissemination and the consequential transactional expenses. Carmakers have the ability to adopt heightened data security protocols in order to safeguard their proprietary rights, includingpatents and trade secrets. This can lead to a reduction in expenses associated with legal fees and harm to their reputation.

Environmental uncertainty – Insufficient and fragmented data compilations within the DDM may lead to elevated transaction costs associated with environmental uncertainty. This is due to the fact that inadequate data can impede the ability to forecast market trends, anticipate demand, and make well-informed decisions. Conversely, the centralised data ownership structure of the agency distribution model has the potential to enhance the accessibility of more comprehensive and accurate data, thereby mitigating transaction costs associated with environmental uncertainty. Through the provision of improved data, OEMs and dealerships can enhance their decision-making processes, achieve greater accuracy in demand forecasting, and optimise inventory management, thereby reducing transaction costs. In addition, the centralised data ownership structure of the agency sales model can facilitate cooperation between the principal firm and its affiliated dealerships, thereby diminishing transaction expenses associated with environmental ambiguity (Alberti, 2023). Collaboration facilitates the exchange of knowledge and assets, resulting in improved decision-making and a more precisecomprehension of market patterns and consumer inclinations, ultimately leading to reduced transaction expenses.

Information acquisition – The ADM has the potential to enhance decision-making processes and decrease information acquisition expenses by granting the manufacturer complete and precise customer preference and behaviour data through centralising data ownership with the producer. Moreover, the implementation of the agency model has the potential to facilitate streamlined communication channels between manufacturers and dealerships, thereby minimising redundant activities and fostering cooperative interactions.

The DDM, in contrast, allows each dealership to independently control and manage customer information. However, this may lead to incomplete and fragmented data compilations, thereby posing challenges for the manufacturer to obtain precise and comprehensive insights into customer behaviour and preferences. The aforementioned circumstance may result in increased expenses associated with obtaining information and less than optimal results.

Transaction-specific investments (TSIs) – The agency distribution model entails centralisation of data ownership with the producer, thereby providing dealerships with increased assurance concerning their investments in TSIs. The rationale behind this is that the OEM possesses greater authority over the dissemination of its merchandise, thereby enabling it to furnish more precise predictions and statistics to dealerships. This, in turn, assists the latter in making better-informed judgements concerning their investments in TSIs (Mantellini, 2023). Moreover, by obtaining more detailed and accurate information, the carmaker can engage in a more cooperative manner withdealerships to enhance their transaction specific investments, leading to a more streamlined and economical strategy. Conversely, within the context of the dealership distribution model, wherein data ownership is governed by individual dealerships, there could be greater ambiguity surrounding the allocation of resources towards TSIs (Alberti, 2023). The reason for this is that dealerships may lack the same degree of data and forecasting capabilities as the OEM, resulting in an increased likelihood of investing in TSIs that may not be optimised for the OEM's products. Furthermore, in the event of decentralised data ownership, dealerships may incur expenses associated with gathering and administering their own data, resulting in heightened transactional expenditures.

Monitoring due to opportunistic behaviour – The ownership structure of data in the ADM has the potential to affect transaction costs associated with monitoring due to opportunisticbehaviour, in contrast to the conventional dealership distribution model. Under the conventional framework, customer data is under the purview of individual dealerships, thereby posing a challenge for the OEM to oversee and forestall opportunistic conduct by dealerships, such as falsifying sales statistics or executing unsanctioned promotional activities (Ravaglia, 2023). The aforementioned circumstance may lead to escalated transaction expenses owing to the necessity of heightened surveillance endeavours and plausible contentions concerning sales metrics. Conversely, the distribution model employed by the agency places emphasis on data ownership by the producer, thereby facilitating a more exhaustive and accurate data gathering and evaluation process. The implementation of this measure can potentially enhance the manufacturer’s ability to oversee dealership conduct in a more efficient

manner, thereby mitigating the likelihood of opportunistic conduct and the consequential transactional expenses. Furthermore, the consolidation of data ownership in a centralised manner facilitates the enforcement of contractual obligations and adherence to pricing policies and other regulations, thereby reducing the likelihood of opportunistic conduct (Setti, 2023).

Table 11 resumes the findings of the considerations above.

6. Discussion

6.1. Empirical Outcomes

The present study established an empirical framework through qualitative testing of the individual characteristics of the agency distribution model and the determinants of transaction cost theory. This framework is consistent with the earlier explanation and is further supported by the results obtained. In the automotive industry, it is commonly perceived that the automotive producers and the intermediary agent, often referred to as the dealer, are viewed as a unified entity in the latter. The assessment of transaction cost efficiency is carried out both before and after the potential vertical integration of specific functions within the automotive ADM.

Table 12 presents a collection of individual analyses conducted on the research variables, resulting in the depiction of aggregate data. As referenced in the preceding paragraphs, the analysis of each component has been condensed into summary tables to enhance comprehension. Table 12 was constructed as a result of the amalgamation of the aforementioned entities.

Empirical evidence suggests that the adoption of the ADM has yielded favourable outcomes, specifically in terms of reducing transaction costs. This positive impact is observed across various determinants of transaction costs – namely, IPRP, EU, INFO, and MOB – and across all significant factors that influence automotive agency distribution. The provided sample presents compelling and pragmatic economic justifications for the shift towards the novel distribution paradigm in the industrial sector. The primary benefits include a reduction in value erosion pertaining to retail costs (the so-called Cost of Retail) and operational synergies for manufacturers. Additionally, there is an increase in liquidity and a decrease in entrepreneurial risk for agents (Mantellini, 2023), who are typically referred to as dealers.

The present study's empirical framework aligns with the quantitative and qualitative results obtained by Roland Berger in 2021. According to a study conducted by the consulting firm, manufacturers who utilise direct sales models with a particular emphasis on online channels have a noteworthy competitive advantage over established OEMs that depend on conventional, indirect brick-and-mortar sales models. The principal benefits of direct, online-oriented models pertain to the reduction of costs and enhancement of comprehension and engagement with customers (Roland Berger, 2021).

Consequently, established automotive manufacturers have initiated a thorough

examination of their sales strategies, with the objective of minimising their retail expenses being a key driver. It has been observed that carmakers who adopt a sales model that is direct and online-focused can attain a retail cost that is less than 10% of their gross revenue. In contrast, established manufacturers typically fall within the range of 25% to 30%. The subject of this investigation concerns the enhancement of the present sales framework employed by OEMs and dealerships, with the objective of leveraging the possibilities presented by agency-based and online-oriented sales models (Roland Berger, 2021).

After careful evaluation, it was concluded that the agency sales model represents the most advantageous approach. The agency model functions as an intermediary mechanism that facilitates a centralised sales approach, thereby augmenting the overall efficiency of the system, by serving as a link between direct and indirect sales, and OEMs and dealers with a streamlined sales process. According to a recent report by Roland Berger (2021), there exists a possibility of reducing the retail cost for car manufacturers by 1-2% in the short term and up to 10% in the long term, when considered as a whole. Table 14 presents a graphical representation of the aforementioned factors (Roland Berger, 2021).

The aforementioned consulting piece also establishes another connection with the current research. In order to achieve the aforementioned benefits, it is crucial to consider multiple factors including model specification, legal limitations, pre-existing dealer agreements, and market-specific timing. Table 12 illustrates that this study has identified possible rises in transaction expenses associated with the novel sales agreement that excludes the conventional dealer from the contractual purchase of an automobile. In relation to the determinants COORD and TSI, which pertain to production strategy and transaction-specific investments, respectively, it is possible that TCs may experience an empirical increase. This increase may be attributed to case-specific variables that were not accounted for in this study but are evident in secondary data obtained from consulting.

6.2. Comparison of Empirical and Theoretical Frameworks

The present study provides a valuable analysis of the extent to which the theoretical framework of transaction cost theory aligns with the empirical findings in the context of automotive agency distribution. By comparing the observed empirical patterns with the theoretical predictions, this study offers valuable insights into the applicability and validity of the TCT. Within this section, the fundamental components of the empirical framework that has

been deduced from our data analysis are compared and contrasted with the theoretical projections of transaction cost theory. Through an analysis of the convergence or divergence among these frameworks, one can assess the suitability and explanatory power of the theory in the particular context of the automotive distribution.

The examination of the agency distribution model in the automotive industry has presented convincing evidence of reduced transaction costs in all the areas that were investigated. The aforementioned results provide substantial backing for the determinants postulated by TCT. Throughout the course of our research, we have consistently observed a decrease in transaction costs within the agency relationships, as is clearly demonstrated in Table 12. The aforementioned decreases were noted with respect to the primary factors influencing transaction costs, which encompass transaction-specific investments, ambiguity, the procurement of information, and self-interested conduct.

Through an analysis of multiple facets of the agency distribution model, specifically dimensions encompassing stock ownership, production strategy, and provision policy, advantageous results in the form of reduced transaction costs were consistently observed. Table 8 and Table 11 provide evidence that data ownership and inventory ownership have a significant linear relationship with the reduction of transaction costs within the ADM framework. Conversely, the management of demonstration cars appears to have a negligible effect. The present study affirms that the tactics utilised in the agency relationships efficiently alleviate the transaction expenses linked with these particular facets.

The results of this research offer substantial empirical evidence in favour of the effectiveness of the agency distribution model in reducing transaction costs in general. However, it is imperative to recognise the intricacies and subtleties inherent in the sector. Notwithstanding the general decline, there were occurrences where transaction expenses persisted or escalated. Table 12 reveals that the agency sales contract was the primary factor responsible for inducing uncertainty among the interviewees sampled with respect to the expenses associated with the coordination of transformed vertical chains and monitoring of opportunistic behaviour in the context of automotive distribution. This was evident from the observations made in cells COORD-CONT (i.e., the effect of the new sales contract on TCs in the form of coordination costs and problems) and TSI-CONT (i.e., the effect of the new sales contract on TCs related to TSIs). These occurrences may be ascribed to the bureaucratic shift from one contract to another, in addition to the operational modifications required to execute the delineated vertical structure, and the related internal reskilling.

Based on the extant literature, the theoretical framework posits precise modifications in TCs during the shift from the conventional dealership distribution model to the automotive ADM. Based on the theoretical predictions (Coase, 1937) (Williamson, 1989) (Hennart, 1991) (Rindfleisch, 2019), the anticipated patterns in TCs were projected to manifest under the newly developed model:

- Decrease in TCs related to coordination costs and problems: the ADM, with its focus on streamlining the agency relationships and reducing interdependencies, is expected to mitigate coordination costs and problems. This should result in a decrease in TCs associated with coordination challenges, such as inefficient communication, conflicting incentives, and difficulty in aligning goals between manufacturers and agents.
- Decrease in TCs related to IPRs protection and dissemination risk: the ADM is designed to provide a more controlled and standardized distribution network, reducing the risk of IPR infringement, and ensuring better protection and dissemination of proprietary knowledge and technologies. Consequently, we anticipated a decrease in TCs associated with IPR protection and dissemination risk.
- Decrease in TCs related to TSIs: under the ADM, the transformation process involves a divestment of TSIs by dealerships, as they no longer need to make significant investments in physical assets or specific skills. Thus, we expected a decrease in TCs related to TSIs, as the burden of investment shifts from dealers to manufacturers.
- Increase in TCs related to environmental uncertainty: with the transition to the ADM, the distribution network may face increased environmental uncertainty due to factors such as market fluctuations, evolving customer preferences, and changing industry dynamics. This uncertainty could lead to increased TCs as firms grapple with adapting to new market conditions.
- Increase in TCs related to information acquisition and monitoring due to opportunistic behaviour: as agents gain more autonomy and independence under the ADM, there may be a heightened risk of opportunistic behaviour, such as shirking responsibilities or withholding crucial information. This could result in increased TCs associated with the need for firms to acquire and monitor information more extensively.

By examining the empirical data within the context of the ADM, we can assess the extent to which these theoretical predictions align with the observed patterns of TCs in our study.

6.3. Pattern-Matching

The study's analysis of the transaction cost theory's theoretical framework and empirical findings, as shown in Table 13, demonstrated a combination of congruence and incongruence across the different determinants of transaction cost that were investigated. The convergence between the empirical and theoretical frameworks is evident in specific domains, such as coordination costs and issues (COORD), safeguarding IPRs (IPRP), and TSIs (TSI). The results of this study offer strong evidence in favour of the forecasts made by TCT in relation to the automotive agency distribution model.

It is noteworthy that there exists a discrepancy between the empirical and theoretical patterns in relation to the factors of environmental uncertainty (EU), information acquisition (INFO), and monitoring as a result of opportunistic behaviour (MOB). The aforementioned incongruity presents various aspects that warrant contemplation within the confines of transaction cost theory, the particular setting of the investigation, and the methodology employed.

A plausible rationale for the discrepancy could be attributed to the constraints inherent in TCT. It is plausible that the theoretical framework may not comprehensively encapsulate the intricacies and fluctuations of environmental ambiguity, knowledge acquisition, and surveillance in the automotive sector. Variations that are not entirely explained by the theoretical framework may arise due to factors such as swiftly changing market conditions, customer preferences, and industry disruptions.

Furthermore, the distinctive circumstances surrounding the distribution model of the automotive agency may give rise to exceptional dynamics that diverge from the postulations of the theory of transaction costs. The observed discrepancies may be influenced by variations in the industry's patterns of environmental uncertainty or opportunistic behaviour, which may deviate from the theoretical predictions.

It is imperative to take into account the constraints of the research design and the techniques utilised for data collection in the present investigation. The empirical findings may have been influenced by various factors, including but not limited to sample size, selection

biases, and data source quality, which could have impacted the degree of alignment with theoretical predictions.

The identified disparities serve as indications of potential limitations in the TCT, but they also present prospects for additional scholarly investigation. The examination of alternative theoretical frameworks or perspectives that offer improved explanations for observed patterns, as well as the consideration of additional factors that may impact determinants, can enhance comprehension of transaction cost dynamics in the automotive agency distribution model.

In summary, the comparison of the empirical and theoretical frameworks through pattern matching has identified both congruent and incongruent areas with respect to the transaction cost determinants that were analysed. The domains of mathematics, encompassing issues such as expenses and difficulties related to coordination, safeguarding of intellectual property rights, and technology-specific investments, offer substantial corroboration for the tenets of transaction cost theory. Further investigation and consideration of alternative explanations are warranted for areas of mismatch, such as environmental uncertainty, information acquisition, and monitoring due to opportunistic behaviour. The aforementioned discoveries enhance our comprehension of the intricate nature and fluctuations of transaction expenses in the distinct milieu of the automobile sector.

6.4. Implications for Transaction-Cost Theory in the Automotive Industry

The outcomes of this dissertation, which employed a qualitative approach to test theories and match patterns, hold significant implications for TCT as it pertains to the automotive sector. The empirical and theoretical frameworks exhibit congruence in various aspects such as coordination costs and issues, safeguarding of intellectual property rights (IPR), and transaction-specific investments (TSIs). These areas of convergence signify the pertinence and practicality of transaction cost theory in elucidating the dynamics of transaction costs within the automotive agency distribution model.

The congruence observed between the practical and conceptual models pertaining to coordination costs and issues implies that the automotive agency distribution model's streamlined agency relationships and decreased interdependencies successfully alleviate coordination costs. The aforementioned discovery corroborates the idea that the theory of transaction costs offers significant perspectives on how to effectively handle coordination

obstacles in intricate distribution networks.

The alignment between IPR protection and dissemination risk underscores the importance of the automotive agency distribution model in enhancing the safeguarding and dissemination of proprietary knowledge and technologies. The aforementioned discovery provides corroboration for the theoretical prognostications of TCT concerning the function of institutional arrangements in mitigating the hazard of IPR violation.

Nonetheless, the discrepancies observed between the empirical and theoretical frameworks, specifically in relation to environmental uncertainty, information acquisition, and monitoring as a result of opportunistic behaviour, necessitate additional investigation and contemplation. The observed disparities indicate that the transaction cost theory may possess limitations in comprehensively capturing the intricacies of these determinants within the unique context of the automotive sector.

6.5. Limitations

Although the present study provides significant contributions to the understanding of transaction cost dynamics in the automotive sector, it is imperative to recognise the constraints of this research. The study is based on qualitative data gathered from interviews conducted with top and middle managers of the Italian subsidiary of a single international automotive dealership corporation. The results may not comprehensively encompass the variety and scope of transaction cost dynamics across the wider automotive sector.

Furthermore, the potential for biases and limitations in the generalizability of the findings may arise from the sample size and selection of the particular corporation. It is imperative to take into account these constraints while construing the outcomes and implementing them to the broader automobile sector.

6.6. Future Research Directions

Drawing from the outcomes and constraints of this investigation, multiple avenues for prospective research can be proposed. In order to supplement the qualitative findings obtained from this investigation, it is recommended that forthcoming research utilise quantitative techniques to analyse the transaction cost dynamics inherent in the automotive agency distribution model. Conducting extensive surveys or utilising econometric analysis techniques

can offer a wider outlook and enable statistical generalisations.

A comparative analysis can be conducted to examine transaction cost dynamics and identify potential variations in the determinants across contexts. This can be achieved by studying multiple subsidiaries within the same automotive dealership corporation or by comparing different corporations.

Longitudinal studies have the potential to offer valuable insights into the dynamic nature of transaction costs within the automotive agency distribution model, as well as their interplay with other factors such as industry trends or regulatory changes.

Conducting a cross-cultural analysis of transaction cost dynamics within the automotive industry across various countries and cultural contexts would facilitate the identification of the ways in which cultural factors impact transaction costs and agency relationships.

The utilisation of in-depth case studies of individual dealerships or manufacturers within the automotive industry could offer a more profound comprehension of the particular mechanisms and strategies implemented to effectively manage transaction costs.

The exploration of these research avenues can augment our comprehension of transaction cost dynamics in the automotive sector, thereby advancing the development and expansion of TCT.

In summary, this study utilises a qualitative approach to test theories and identify patterns, yielding significant findings regarding the transaction cost dynamics inherent in the automotive agency distribution model. The study discerns congruences and incongruences between the observed data and the transaction cost theory, emphasising the ramifications for the theory within the context of the automotive sector. It is crucial to recognise the constraints of the study and take them into account in subsequent inquiries to enhance the comprehension of transaction cost dynamics within this particular setting.

7. Conclusions

The present study endeavours to examine the transaction cost dynamics inherent in the automotive industry, with a particular emphasis on the automotive agency distribution model. The study utilised a qualitative research design that aimed to test theories. Primary data was collected through interviews with top and middle managers of an Italian subsidiary of an international automotive dealership corporation. The study's results hold significant implications for transaction cost theory within the automotive industry, thereby making a valuable contribution to the field and highlighting potential avenues for future research.

At the initiation of this study, an analysis of the automotive sector unveiled two principal methods of distribution: agency sales and dealership sales. The process of agency sales entails a direct association between the producer and the clientele via authorised agents, whereas dealership sales function through autonomous dealerships. The study involved a thorough examination of these models, with a particular emphasis on the transaction cost dynamics inherent in the automotive agency distribution model. The present assessment facilitated a more profound comprehension of the factors that determine transaction costs and their consequences in the automotive sector's particular setting.

The study's design and methodology facilitated a thorough investigation of transaction cost dynamics in the automotive agency distribution model. By means of comprehensive interviews and meticulous analysis, the research effectively documented the intricacies and intricacies of the factors that influence transaction costs. The utilisation of a qualitative methodology that tests theoretical propositions has yielded significant insights into the empirical patterns observed, and their congruence with the predictions posited by transaction cost theory.

The study's primary outcomes demonstrate both congruence and incongruity between the empirical and theoretical frameworks. The automotive agency distribution model exhibits the pertinence and suitability of transaction cost theory in various domains of mathematics, including but not limited to coordination costs and issues, safeguarding IPRs, and TSIs. The aforementioned results underscore the efficacy of the model in reducing expenses associated with coordination, safeguarding intellectual property rights, and promoting streamlined technology sharing initiatives.

The identified areas of discrepancy, such as unpredictability in the environment, the process of obtaining information, and the need for surveillance to prevent opportunistic

conduct, warrant additional scrutiny and contemplation. The observed disparities imply that the transaction cost theory may possess certain constraints in comprehensively encapsulating the intricate nature of these factors within the distinct milieu of the automobile sector.

The findings have significant implications for transaction cost literature within the automotive industry. This study enhances comprehension and practical implementation of TCT in the management of transaction costs within the automotive agency distribution model by identifying the determinants that align with both empirical and theoretical frameworks. Furthermore, the disparities in certain domains present prospects for forthcoming investigations to enhance and broaden the existing transaction cost literature by taking into account the distinct intricacies and dynamics of the automotive sector.

The research findings have implications that transcend the boundaries of TCT. The study's empirical findings hold practical significance for professionals and policymakers in the automotive industry. The study's results provide insight into the techniques and mechanisms that can be utilised to efficiently handle transaction expenses in the automotive agency distribution structure, resulting in enhanced coordination, intellectual property rights safeguarding, and investments specific to transactions.

This study offers a thorough examination of the transaction cost dynamics inherent in the automotive agency distribution model, ultimately culminating in a comprehensive analysis as presented in the master's thesis. The utilisation of a systematic research design and methodology facilitated a thorough investigation of the factors that influence transaction costs. This approach revealed instances of both alignment and discrepancy between the theoretical and empirical frameworks. The results of this study have significant implications for the transaction cost theory within the automotive industry. Additionally, this research makes a valuable contribution to the field and provides suggestions for further investigation.

In conclusion, it is recommended that further research be conducted to supplement the qualitative findings obtained from this study with quantitative investigations. Conducting a comparative analysis of transaction cost dynamics among various automotive dealership corporations or multiple subsidiaries within a single corporation has the potential to improve our comprehension of the subject matter. Long-term investigations that monitor alterations in transaction costs over a period of time would offer valuable perspectives into the fluctuating character of these expenses. The utilisation of cross-cultural analysis and comprehensive case studies would enhance the comprehension of transaction cost dynamics in the automotive

sector.

The identification of these research avenues can serve as a foundation for future studies to expand upon the knowledge acquired from this master's thesis. This can lead to a deeper comprehension of the transaction cost dynamics in the automotive industry, which can ultimately enhance the management of transaction costs and foster more efficient agency relationships.

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10. Tables

Table 1

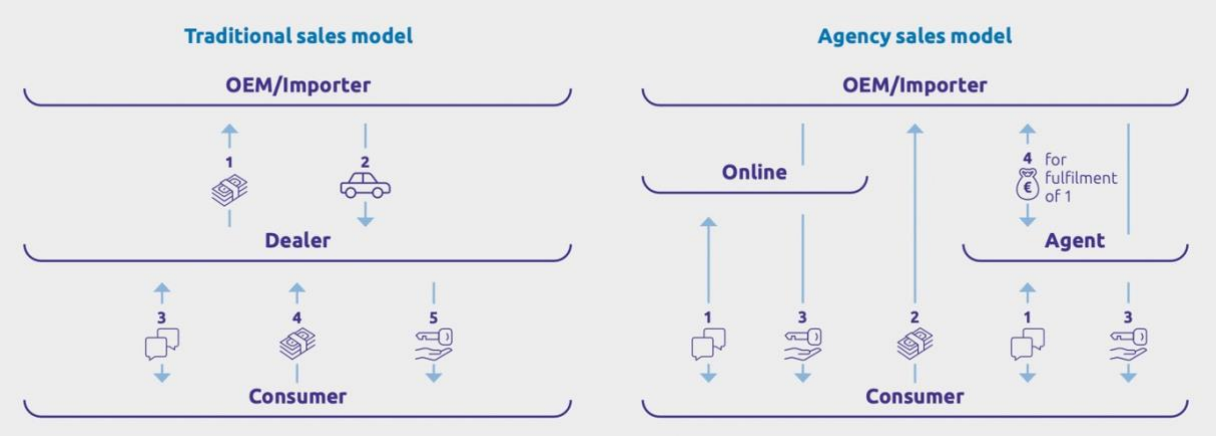


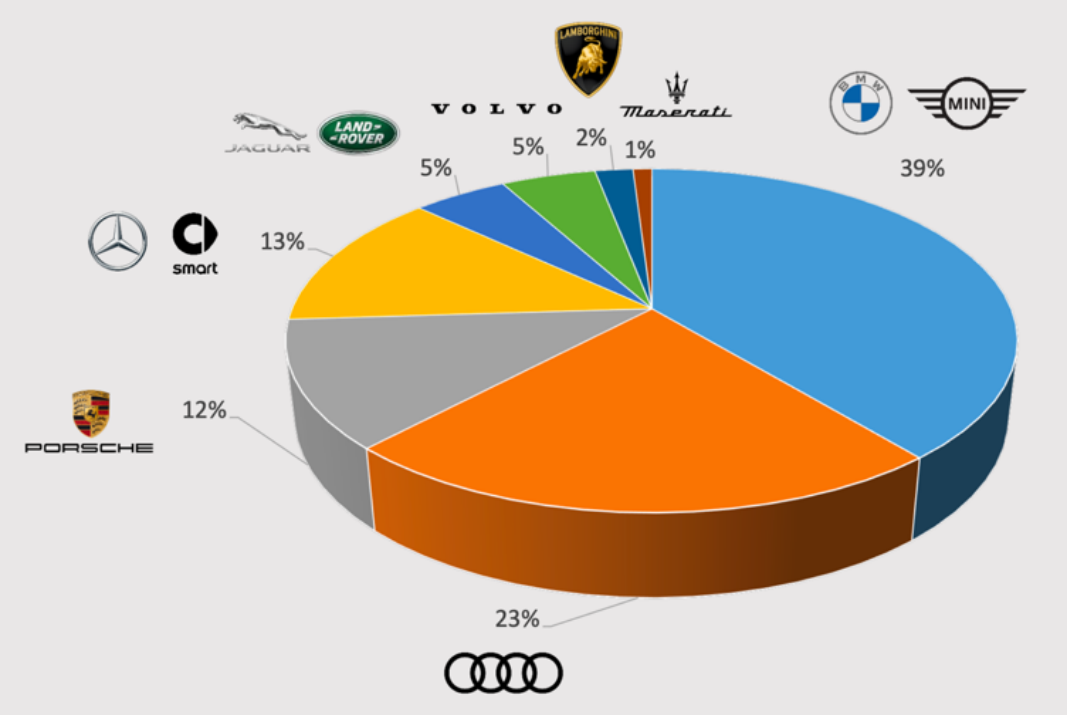
Table 2

ID	Role at PAG Italy	Duration	Other Roles
Andrea Mantellini	CEO and Managing Director	2h 35min	Board Member (CEO) at AutoVanti, BluVanti, Bologna Premium, Centro Porsche di Bologna, Modena, e Mantova Board Member at Audi Zentrum Bologna and StarEmilia
Elena Alberti	CFO and Managing Director	55 min	Board Member (CEO) at Audi Zentrum Bologna and StarEmilia Board Member at AutoVanti, BluVanti, Bologna Premium, Centro Porsche di Bologna, Modena, e Mantova, Lamborghini Bologna Former CFO at Penske Automotive Europe
Stefano Setti	Head of Human Resources	1h 10min	Former Global HR Business Partner Commercial at Maserati Former HR Manager at FCA Fiat Chrysler Automobiles Former HR Manager and Business Partner Commercial at Vodafone
Simone Longo	Member of the Dealer Operations Board Managing Director, Mercedes-Benz and Smart Division	35min	General Manager at StarEmilia CEO at Penske Service Bologna Former Dealer Operator at AutoVanti
Mirko Fattore	New Cars Division Manager, BMW and MINI Division	1h 5min	Former Dealer Operator at AutoVanti
Alessandro Ravaglia	Sales Manager, MINI	1h 10min	MINI Sales Consultant at AutoVanti

Table 3

	TF
COORD	↓
IPRP	↓
EU	↑
INFO	↑
TSI	↓
MOB	↑

Table 4



1

[1] (Penske Automotive Italy, 2023)

Table 5

	PROD	**Result**
COORD	/	=
IPRP	/	=
EU	Highly market-responsive; fixed prices provide higher predictability.	↓
INFO	/	=
TSI	Lower inventory fluctuations mitigate the risk of losses on TSIs.	↓
MOB	No over-ordering or sale of competing brands.	↓

Table 6

	CONT	**Result**
COORD	Higher distance between OEM and customer, needs more control.	↑
IPRP	Direct contractual link.	↓
EU	Lower risk due to variable customer taste or unstable economies.	↓
INFO	Direct access to market data.	↓
TSI	Lower incentive for agents to invest in CSI and marketing.	↑
MOB	Guarantee buyer's interest, less conflict, smaller information gap.	↓

Table 7

	P&P	**Result**
COORD	Dealer-OEM agency problems, but leaner proposition across markets.	=
IPRP	Higher control on brand perception as well as on use of IP.	↓
EU	More even treatment of agents, less demand fluctuation risk.	↓
INFO	/	=
TSI	/	=
MOB	No more unapproved discounts, less commissions under divergence.	↓

Table 8

	B&D	**Result**
COORD	Higher real-time visibility of transaction status, less disagreements.	↓
IPRP	/	=
EU	Higher control on changing regulations, more data on customers.	↓
INFO	Better infrastructure, centralised optimisation of data quality.	↓
TSI	Lower tax-related conflicts of interest, better mitigation of disputes.	↓
MOB	Harmonisation of incentives, higher control on margins.	↓

Table 9

	INV	**Result**
COORD	Less coordination on prices and marketing efforts.	↓
IPRP	/	=
EU	Lower financial risk for dealers and more representative offering.	↓
INFO	Avoid redundancy intra-brand locally.	↓
TSI	Less contextual investments for dealers, but higher for OEMs.	=
MOB	Level-up of misconduct related to financing and market risks.	↓

Table 10

	DEMO	**Result**
COORD	Higher incentives to sell demo stock and maintenance standards.	↓
IPRP	/	=
EU	/	=
INFO	/	=
TSI	/	=
MOB	Higher incentives to sell demo stock within OEMs' guidelines.	↓

Table 11

	DATA	**Result**
COORD	More adequate and less fragmented data, hence less correction costs.	↓
IPRP	Greater control of data thanks to better infrastructure at the OEMs.	↓
EU	Higher quality data mean higher evidence on market trends and taste.	↓
INFO	Facilitate streamlined channels, minimise data redundancy.	↓
TSI	Optimisation of investments in data protection and analysis.	↓
MOB	Harder falsification of sales statistics, less surveillance.	↓

Table 12

	PROD	**CONT**	**P&P**	**B&D**	**INV**	**DEMO**	**DATA**	**EF**
COORD	=	↑	=	↓	↓	↓	↓	↓
IPRP	=	↓	↓	=	=	=	↓	↓
EU	↓	↓	↓	↓	↓	=	↓	↓
INFO	=	↓	=	↓	↓	=	↓	↓
TSI	↓	↑	=	↓	=	=	↓	↓
MOB	↓	↓	↓	↓	↓	↓	↓	↓

Table 13

	EF	TF	Pattern
COORD	↓	↓	Match
IPRP	↓	↓	Match
EU	↓	↑	NO Match
INFO	↓	↑	NO Match
TSI	↓	↓	Match
MOB	↓	↑	NO Match

Table 14

Based on assessing the opportunities and challenges, OEMs opt to pilot and establish different models

Sales model transition opportunities and risks

	OEMs	Dealers
Opportunities	**Cost of Distribution reduction** Centralization efficiencies and reduction of intra-brand discount and retail margins	**Less entrepreneurial risk** Value creation shift from dealer to OEM implies less entrepreneurial risk on retail level (e.g., in volatile economic situations)
	Premium customer experience "Hassle free" premium interaction, individualized targeting and seamless purchasing journey across all channels	**Lean structures** More transparent and foreseeable planning with lean cost structures. Focus on personal customer consultation and service
	Operational synergies Reduction of complexity and increase of system efficiency through system integration	**Liquidity enhancement** No pre-financing of vehicles, OEM also assumes the costs for inventory and showroom vehicles (leading to leaner balance sheet)
Risks	**Balance sheet extension** Transfer of assets to wholesale balance sheet with cash flow impact (one-time effect) incl. used car	**Shift of customer interaction** Value creation shift to OEMs moves customer relations from dealer to OEM – More difficult to build customer loyalty
	Organizational complexity Build-up of FTE on wholesale level and interconnection of centralized support functions and affiliated processes as well as skill sets	**Business performance during transition** Sales activities and customer interaction can be challenging while new model is not perfectly in place
	Risk of legal disputes Handling of potential legal disputes and compensatory payments	**Increased dependence on OEM activities** Value creation shift implies stronger increase in economic dependence on OEM activities in sales and customer interaction

Source Roland Berger

Roland Berger

2

[2] (Roland Berger, 2021)

LUISS

Master of Science in Management

Major in International Management

Chair of International Business

SUMMARY of "Testing Transaction Cost Theory via the Automotive Agency Distribution Model

Case Study of Penske Automotive Italy"

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1. Abstract

With a particular emphasis on the automotive agency distribution model (ADM), this study analyses transaction cost dynamics in the automobile industry. Primary data were gathered through interviews with top and middle management of an international car dealership corporation's Italian affiliate, Penske Automotive Italy, using a qualitative, theory-testing methodology. The research design allows for a thorough investigation of the factors that affect transaction costs, contrasting empirical results with those predicted by transaction cost theory.

The primary findings show regions where the theoretical and empirical frameworks match and disagree. The areas of match, such as coordination costs and issues, intellectual property right (IPR) protection, and transaction-specific investments (TSIs), highlight the applicability of transaction cost theory in the context of the automobile agency distribution model. The limits of transaction cost theory in representing the complexity of these drivers within the automobile industry are highlighted by areas of mismatch, such as environmental uncertainty, information gathering, and monitoring owing to opportunistic behaviour.

The automotive sector and transaction cost theory are both affected by these discoveries. The study offers insights into the efficient management of transaction costs within the automobile agency distribution model, which aids in the understanding and application of transaction cost theory (TCT). The study also highlights methods for improving coordination, IPR protection, and transaction-specific investments, with implications for industry practitioners and policymakers.

In conclusion, by offering a thorough examination of transaction cost dynamics within the automotive agency distribution model, this master's thesis makes contributions to the fields of transaction cost theory and the automotive industry. The results identify areas for additional study and improvement while showing the applicability of transaction cost theory. Future quantitative studies, comparative analyses, longitudinal studies, cross-cultural analyses, and in-depth case studies are advised by the study in order to advance our knowledge of transaction cost dynamics in the automobile sector and enhance transaction cost management.

Key words: agency distribution model, transaction cost theory, automotive, business case, franchising, qualitative, empirical, interview.

2. Introduction

Automotive OEMs' implementation of the Agency Distribution Model (ADM) is anticipated to have a big impact on management procedures and retail plans. Autonomous agents are used by the ADM to sell and maintain vehicles, resulting in greater agent competition, cheaper costs, and better client experiences. It makes resource distribution more effective and lowers OEMs' costs associated with coordinating. The ADM will have a significant impact on the governance of the automobile industry, enhancing competitiveness and effectiveness while lowering transaction costs. The ADM offers more autonomy and authority to autonomous agents in the sales and servicing operations, competition among agents, and reduced costs for automakers in comparison to the conventional dealership model.

The agency distribution model's (ADM) major effects on global automotive governance call for further study from a number of scientific angles. The significance of understanding the ADM is influenced by a number of factors, including economics, business, consumer behaviour, legislation, international trade, competition, and market dynamics. The ADM's economic impacts on the automotive industry, the nations involved, as well as its impact on international regulatory frameworks and cross-border trade, may all be studied by academics.

Additionally, with an emphasis on consumer behaviour and the customer experience, researchers should compare the business strategies and operations of organisations that have implemented the ADM to those that have not.

It is anticipated that the adoption of agency sales in the automotive industry will have a variety of repercussions on auto dealerships, affecting their authority, financial performance, and operational procedures. There are chances for innovation and distinctiveness, even though it can result in reduced earnings and competition for dealerships. A well-known dealership holding company, Penske Automotive Italy, has switched to agency sales and is now concentrating on improving the client experience through a BX approach. By looking into the empirical framework of the agency distribution model, this study intends to investigate the dynamics of the automotive market and validate transaction cost theory. Transaction costs, features of theory and practise that are congruent and incongruent, factors that affect transaction costs, and the implications of transaction cost theory in the automobile industry will all be examined in this study. The objective is to advance academic understanding, offer guidance to practitioners, and pinpoint gaps and potential future study areas.

3. Literature

An important concept in economics that describes the costs associated with economic transactions is called transaction cost theory. It places an emphasis on elements like complexity, ambiguity, and the accessibility of information while concentrating on the costs incurred when businesses interact with outside parties. The father of transaction cost theory, Ronald Coase, put forth the idea that businesses exist to reduce transaction costs and emphasised the need of internal organisation in doing so.

Oliver Williamson expanded on Coase's ideas by taking asset uniqueness and risk mitigation into account. Peter Hennart emphasised the role governance structures play in lowering transaction costs, particularly for investments that are transaction-specific. Although it has several shortcomings, such as its emphasis on straightforward transactions and its suppositions of complete information and rationality, transaction cost theory has helped to understand corporate behaviour and organisation.

The theory has been used in a variety of industries, including the automotive industry, where product distribution and organisational systems call for more study. The governance framework and overall system performance are significantly impacted by monitoring expenses and asset specificity in the context of agency sales in the automotive industry. According to the idea of transaction costs, economic agents choose effective transaction mechanisms like internalisation or market mechanisms in an effort to reduce costs. Economic transactions and the factors affecting their costs and efficacy are better understood thanks to transaction cost theory.

To pinpoint the main factors influencing transaction cost theory (TCT), this study consults works by Hennart (1991), Williamson (1985, 1989), Rindfleisch (2019), and others. The study's factors include monitoring because of opportunistic behaviour, coordination costs and issues, intellectual property rights (IPRs) protection and dissemination risk, environmental uncertainty, information acquisition, and transaction-specific investments (TSIs).

Transaction complexity, unpredictability, and specificity all contribute to coordination costs and issues. Market swings, technical developments, and regulatory changes can all lead to uncertainty, whereas specificity refers to assets that have little value once the transaction has been completed. Increased coordination problems cause opportunistic behaviours and unfulfilled contracts, which in turn cause conflicts and raise settlement costs.

By combining production phases and lowering transactional demands, vertical integration is a technique for minimising coordination costs. It promotes operational performance, increases coordination, and reduces opportunistic behaviour.

IPR protection and dissemination involve transaction costs because of oversight, enforcement, and legal requirements. Vertical integration lowers the risk of transaction failure and related expenses by allowing businesses to maintain control over key assets and knowledge.

Due to its flexibility and capacity to transfer risk to suppliers with specialised knowledge, outsourcing is preferable to vertical integration in environments where there is a high degree of environmental uncertainty. Vertical integration makes it easier to supervise and monitor key distribution processes, while outsourcing allows for economies of scale, access to new technology, and resource optimisation.

High levels of complexity and uncertainty can make it difficult for businesses to obtain the information they need, necessitating pricey information acquisition methods. Access to outside expertise through outsourcing increases flexibility and reduces the requirement for information gathering. Vertical integration can raise fixed costs and reduce adaptability, which increases the allure of outsourcing.

Investments that are unique and linked to certain transactions are known as TSIs. While unilateral TSIs could result in reluctance towards outsourcing, bilateral TSIs promote confidence. Outsourcing is more possible if partners invest in TSIs because of their deterrent to opportunistic behaviour.

Choosing between outsourcing and vertical integration depends heavily on monitoring. Outsourcing to a partner with strong incentives for top performance may be useful when monitoring expenses are high. Outsourcing is advantageous in situations involving difficult surveillance because incentive structures and performance-based agreements in partnerships can deter opportunistic behaviour.

Considering the theoretical framework, the automotive agency distribution model (ADM) can be viewed as a form of vertical integration, where dealers become agents integrated by the carmaker. According to the framework, the ADM would lead to a decrease in coordination costs and problems, IPR protection and dissemination risk, and TSIs. However, it would increase transaction costs related to environmental uncertainty, information acquisition, and monitoring due to opportunistic behaviour.

Although agency selling has a long history, the present form didn't develop until the 19th century, when mass production and industrialisation took place. A main entity (maker or supplier) hires an agent (salesperson or distributor) to handle product marketing and distribution under agency distribution models (ADMs). ADMs have benefits including lower costs, greater agility, and easier market entry, but they also present difficulties with regulation, synchronisation, and incentive systems.

According to agency theory, principal-agent partnerships encounter a problem where the parties' goals may not entirely coincide. Different interests and challenges in agent selection can lead to moral hazard and adverse selection. Incentives like salaries, commissions, and bonuses can be employed in compensation schemes to balance the interests of the principal and agent. The efficiency of agency interactions is influenced by elements including knowledge asymmetry, opportunism, and trust.

Companies like Polestar have adopted a direct-to-consumer distribution approach in the automobile sector, which differs from the conventional agency model in terms of independence

from the parent firm. While some sectors, like consumer electronics, use a combination of agency and direct sales tactics, others, including real estate and insurance, mainly rely on agency sales.

Agency sales have changed as a result of the growth of data and analytics solutions. Using data and predictive analytics, suppliers can improve their awareness of their clients and markets, keep track on agency sales performance, and optimise resource allocation. Communication, training, feedback gathering, and insights are made easier through supplier middleman and direct consumer communication on social media and digital platforms.

Real-time information and resource sharing is made possible through collaborative platforms, which enhances supplier and agent collaboration. By providing supplemental services and specialised knowledge, building trust and loyalty with suppliers, and acquiring a competitive edge, agencies may stand out in the digital age.

The distribution of automobiles has changed throughout time as manufacturers have adopted various global tactics based on product type, OEM values, and regional preferences. The most effective strategy in the United States was the dealership model, in which manufacturers sell through independent dealers. Dealerships provide quick and inexpensive distribution while giving manufacturers flexibility with their cash flow. Challenges, however, include the price of transactions, the loss of retail pricing control, the lack of direct client interaction, and potential dealer disputes.

Direct-to-consumer (DTC) models are alternatives that entail producers selling directly to consumers using online platforms and physical locations, enhancing user experience and lowering transaction costs. In order to implement the DTC model, a supply chain must be created, and operational risks must be taken. The agency sales model (ADM) lowers retail costs by assigning product sales to local agents or online marketplaces. Traditional OEMs try using ADMs to take use of current dealer networks and cut expenses, but they have difficulties in defining agent tasks, dealing with antitrust concerns, and setting efficient contract terms and incentive plans.

Despite the dealership model's continued dominance, DTC and ADM models present unique benefits and difficulties. Direct client interaction and pricing control are made possible by DTC, but it necessitates the development of new operational processes. ADM makes use of already-existing dealer networks but calls for contract negotiations and supply chain management. Every model in the automotive business provides different considerations for producers.

The changeover in the automotive industry from the dealership distribution model (DDM) to the agency distribution model (ADM) has been studied. Studies contrasting the two models' transaction costs are scarce, nevertheless. For automakers contemplating or implementing the ADM, it is crucial to comprehend transactional cost effectiveness. A theoretical framework known as transaction cost theory (TCT) explains why businesses choose to outsource or integrate vertically. According to earlier empirical studies, manufacturers outsource jobs with low transaction costs. In order to assess TCT's applicability in the context of vehicle distribution, this study will analyse transactional costs related to the adoption of the ADM framework.

It is common practise to cite the automobile sector as an example to highlight the ramifications of TCT due to its intricate supply networks and worldwide coordination. Understanding how businesses manage transactions and set up operations can be helped by looking into the rationale for hiring the ADM. Comparing the ADM to competing techniques like direct sales or outsourcing can be done using transaction cost analysis. Analysing the

ADM's transaction costs can reveal how cultural and legal disparities affect adoption. The majority of previous study has concentrated on producers, ignoring the strategic implications for dealer management practises, customer connections, and emergent roles.

	TF
COORD	↓
IPRP	↓
EU	↑
INFO	↑
TSI	↓
MOB	↑

4. Methodology

This article explores the automobile agency distribution model and tests the transaction cost theory (TCT) put forward by Coase, Williamson, and Hennart through qualitative research employing pattern-matching and theory-testing approaches. Analysing data patterns in qualitative research with pattern matching and theory testing entails creating or testing theoretical hypotheses. The study employs empirical data analysis to check whether data patterns match up with theoretical ideas inside a theoretical framework. The direction of the research process is greatly influenced by theory. The empirical framework utilised to examine the compatibility between TCT and the global trend of automakers switching from dealership distribution to the agency distribution model is the case study of Penske Automotive Italy.

In order to comprehend the global movement in the automotive sales and distribution sector from traditional dealership contracts to agency contracts, this article focuses on qualitative research. It examines the agency distribution model (ADM) and its various commercial and economic variables, taking into account things like coordination expenses, intellectual property rights, environmental uncertainty, information gathering, transaction-specific investments, and keeping an eye out for opportunistic behaviour. The empirical research, which includes interviews with important members of Penske Automotive Italy, is used to test the theoretical framework, which is based on transaction cost economics (TCT). Aspects including manufacturing strategy, sales agreements, price, inventory ownership, and data ownership are all covered in the research. The study comes to a close by employing a pattern-matching method to compare the theoretical framework with the empirical findings.

Data were collected by means of in-presence interviews at Penske Automotive Italy's headquarters or subsidiaries, according to scheduled meetings defined by the Author with the firm's middle and top management. Notes were taken on general ideas, quotes, examples, opinions and experiences told by the Participants, for the latter to be gathered in a logical, unmistakable way and be analysed in comparison to the theoretical framework to draw conclusions on the ADM's transaction-cost efficiency.

The selection of participants was based on the aim of achieving the most diverse range of experiences, roles, and brands that were feasible within the context of Penske Automotive Italy. The objective of the subsequent excerpt is to gather testimony from experts:

An organised process was used for the interviews that were done for this investigation. The research goal, organisation, and justification for selecting a qualitative, theory-testing,

pattern-matching study were all explained to the interview subjects. Targeted questions that were in line with the theoretical and empirical frameworks were used in the structured interviews. Interviewees were typically asked to share their expertise and experiences regarding how changing from dealership to agency distribution models has affected particular business issues. Additionally, they were asked to talk about how the agency distribution model affected producer and dealer transaction costs while taking into account the factors found in the literature on transaction cost theory.

For the study, secondary data were gathered from consulting reports written by respected companies in the automotive industry, such as BCG, Roland Berger, Capgemini, Deloitte, and Strategy&. To get knowledge about the agency distribution model and how effective it is in terms of transaction costs when compared to the dealership distribution model, these reports were thoroughly studied. The choice of studies was made based on the standing and industry knowledge of the firms. Key Penske Automotive Italy managers were interviewed for primary data, which was then analysed and compared to the secondary data. The addition of secondary data from consultant reports gave the industry a deeper knowledge and placed the primary data in the context of pertinent market trends, difficulties, and best practises.

5. Results

The publicly traded Penske Automotive Group is a global car retailer, transportation centre, and racing outfit. Its extensive network of dealerships offers a wide variety of brands, from expensive ones like Porsche and BMW to more affordable ones like Ford and Toyota. The business provides finance, sales of parts, maintenance, and repair services for vehicles. Penske Automotive Group operates hundreds of retail locations throughout the world, including franchised dealerships, used vehicle SuperCentres, collision centres, and commercial truck dealerships. Every year, it sells about 500,000 new and used cars and handles millions of service requests.

With franchises from brands including Audi, BMW, Mercedes-Benz, Porsche, and others, Penske Automotive Italy operates in the premium-luxury market in Italy. It has many sites and is one of Italy's top auto dealer groups in terms of turnover. Regional managers are in charge of particular brands inside the company, while corporate management is in charge of key positions like CEO, CFO, and HR. The organisation has a management structure based on both brand and function. As part of its portfolio of operations, Penske Automotive Italy also provides PenskeCars Service.

In the automotive sector, dealers typically buy cars from manufacturers and then sell them to customers. In the agency sales model, representatives of the manufacturer sell vehicles on their behalf as an extension of the manufacturer's sales staff. The producer determines the suggested retail price and receives a commission for every vehicle sold. With this arrangement, the manufacturer can continue to have complete control over the sales process and client interaction. The agency sales model does come with transaction expenses, though, like fees and the requirement for manufacturer assistance and training. Due to the trust and expertise they offer, customers continue to prefer purchasing from authorised dealerships. To preserve the agency sales model's long-term survival, transaction costs must be carefully considered.

Traditionally, the automobile industry runs on a network of dealerships, where dealers buy cars from the original equipment manufacturer (OEM) and then sell them to customers. In contrast, the agency sales model enables the OEM to communicate with customers directly through representatives of the manufacturer. This change has benefits including greater awareness of consumer preferences, direct customer engagement, and control over pricing and

distribution. Additionally, it helps lower the transaction expenses related to maintaining connections with various dealers. Finding and keeping skilled agents, increased fixed expenses for marketing and sales, and organisational restructuring are obstacles, nevertheless. Overall, the agency sales model offers advantages but necessitates careful analysis and adaption due to its consequences for the OEM's position and transaction costs.

	PROD	**Result**
COORD	/	=
IPRP	/	=
EU	Highly market-responsive; fixed prices provide higher predictability.	↓
INFO	/	=
TSI	Lower inventory fluctuations mitigate the risk of losses on TSIs.	↓
MOB	No over-ordering or sale of competing brands.	↓

	CONT	**Result**
COORD	Higher distance between OEM and customer, needs more control.	↑
IPRP	Direct contractual link.	↓
EU	Lower risk due to variable customer taste or unstable economies.	↓
INFO	Direct access to market data.	↓
TSI	Lower incentive for agents to invest in CSI and marketing.	↑
MOB	Guarantee buyer's interest, less conflict, smaller information gap.	↓

	P&P	**Result**
COORD	Dealer-OEM agency problems, but leaner proposition across markets.	=
IPRP	Higher control on brand perception as well as on use of IP.	↓
EU	More even treatment of agents, less demand fluctuation risk.	↓
INFO	/	=
TSI	/	=
MOB	No more unapproved discounts, less commissions under divergence.	↓

	B&D	**Result**
COORD	Higher real-time visibility of transaction status, less disagreements.	↓
IPRP	/	=
EU	Higher control on changing regulations, more data on customers.	↓
INFO	Better infrastructure, centralised optimisation of data quality.	↓
TSI	Lower tax-related conflicts of interest, better mitigation of disputes.	↓
MOB	Harmonisation of incentives, higher control on margins.	↓

	INV	Result
COORD	Less coordination on prices and marketing efforts.	↓
IPRP	/	=
EU	Lower financial risk for dealers and more representative offering.	↓
INFO	Avoid redundancy intra-brand locally.	↓
TSI	Less contextual investments for dealers, but higher for OEMs.	=
MOB	Level-up of misconduct related to financing and market risks.	↓

	DEMO	Result
COORD	Higher incentives to sell demo stock and maintenance standards.	↓
IPRP	/	=
EU	/	=
INFO	/	=
TSI	/	=
MOB	Higher incentives to sell demo stock within OEMs' guidelines.	↓

	DATA	Result
COORD	More adequate and less fragmented data, hence less correction costs.	↓
IPRP	Greater control of data thanks to better infrastructure at the OEMs.	↓
EU	Higher quality data mean higher evidence on market trends and taste.	↓
INFO	Facilitate streamlined channels, minimise data redundancy.	↓
TSI	Optimisation of investments in data protection and analysis.	↓
MOB	Harder falsification of sales statistics, less surveillance.	↓

6. Discussion

The agency distribution model (ADM) and transaction cost theory in the automotive industry are examined in the study. The findings demonstrate that implementing the ADM lowers transaction costs across a range of variables, which is advantageous to manufacturers and dealers. The analysis is consistent with a Roland Berger assessment that emphasises the advantage that direct and internet sales models for manufacturers have over their competitors. Comparing these models to conventional methods can result in significant retail cost reductions. The agency sales model, which acts as a middleman between direct and indirect sales and streamlines the entire sales process, is considered to be the most advantageous. The report does admit that factors like production strategy and particular investments may result in higher transaction costs. Overall, the study highlights the significance of giving various elements serious thought when putting new models into practise.

The transaction cost theory (TCT) is evaluated in the context of the distribution of automobile agencies, and theoretical predictions are contrasted with empirical data. The research supports the determinants suggested by TCT by showing a constant decline in

transaction costs within agency interactions. It is discovered that several elements, such data and inventory ownership, have a large linear association with lower transaction costs. However, some sectors exhibit enduring or rising transaction costs, which can be attributable to the unknowns surrounding the new agency sales contract and the necessary operational modifications. The patterns of transaction costs are consistent with the theoretical assumptions about coordination costs, intellectual property rights (IPRs), transaction-specific investments (TSIs), environmental uncertainty, and information acquisition. The research highlights the significance of examining empirical data to assess the applicability of of theoretical frameworks like TCT in the context of automotive distribution.

In the context of automobile agency distribution, the study compares the theoretical underpinnings of transaction cost theory (TCT) with actual data. The analysis shows that the two frameworks are inconsistent with one another in terms of a number of different factors that affect transaction costs. The theoretical predictions are specifically supported by coordination costs, IPRs, and TSIs (transaction-specific investments). Disparities are seen in variables including environmental unpredictability, information gathering, and opportunistic behaviour monitoring, though. These discrepancies point to TCT limits, which may be brought on by the complexity of the automotive sector and the limitations of the research methodology. The results emphasise the necessity for additional research and different theoretical frameworks to be taken into account in order to better comprehend transaction cost dynamics in automobile agency distribution.

This dissertation uses a qualitative technique to investigate transaction cost dynamics in the automotive industry. The empirical and theoretical frameworks support each other in terms of coordination costs, intellectual property rights (IPR), and transaction-specific investments (TSIs), demonstrating the applicability of transaction cost theory (TCT) to comprehend transaction costs in the automobile agency distribution model. However, differences in information collecting, monitoring, and environmental uncertainty necessitate further research. The study recognises its sample size and generalizability constraints and makes recommendations for future research areas, such as quantitative analysis, comparative studies, longitudinal research, cross-cultural analysis, and in-depth case studies. Overall, the study underscores the need for additional research while adding to our understanding of transaction cost dynamics in the automotive industry.

	PROD	**CONT**	**P&P**	**B&D**	**INV**	**DEMO**	**DATA**	**EF**
COORD	=	↑	=	↓	↓	↓	↓	↓
IPRP	=	↓	↓	=	=	=	↓	↓
EU	↓	↓	↓	↓	↓	=	↓	↓
INFO	=	↓	=	↓	↓	=	↓	↓
TSI	↓	↑	=	↓	=	=	↓	↓
MOB	↓	↓	↓	↓	↓	↓	↓	↓

	EF	**TF**	**Pattern**
COORD	↓	↓	Match
IPRP	↓	↓	Match
EU	↓	↑	NO Match
INFO	↓	↑	NO Match

TSI	↓	↓	Match
MOB	↓	↑	NO Match

6. Conclusions

This qualitative study focuses on the automotive agency distribution model as it investigates transaction cost dynamics in the automotive industry. For the purpose of gathering primary data, managers from an Italian branch of a multinational automotive dealership organisation were questioned. The study reveals areas of agreement and disagreement between theoretical and empirical frameworks. In domains like coordination costs, protecting intellectual property rights (IPR), and transaction-specific investments (TSIs), transaction cost theory is useful. But there are differences in information gathering, environmental uncertainty, and opportunistic behaviour monitoring. The research makes a contribution to the literature on transaction costs and has applications in the automobile sector. To improve comprehension and control of transaction costs in the automobile industry, additional study is advised, including quantitative analysis, comparative studies, longitudinal research, cross-cultural analysis, and in-depth case studies..

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