

DEVELOPMENT OF THE DOMESTIC FRANCHISED DEALER SYSTEM
OF DISTRIBUTION FOR NEW AUTOMOBILES

by
James H. Wolter
The University of Michigan--Flint

ABSTRACT

The franchised dealer system of distribution evolved from many attempts of auto manufacturers to find a workable system. Most of the early channels tried were rejected. Those that evolved were based on the status of the industry at the time and its early problems and needs.

The early basic distribution needs of the industry were: acquiring retail outlets rapidly with a minimum of attention and cost, some means of making the product available for consumer inspection, coping with repair problems, handling the off-season storage problem, securing a ready market without having fixed legal commitments for delivery, and getting cash on delivery or in advance.

The three systems that emerged from the early years were: the manufacturer's sales branch, the independent distributor, and the franchised dealer system. The sales branches and independent distributors were gradually phased out of the system when the function they initially performed was no longer needed by the auto manufacturers.

The sales branch system had two major disadvantages to the auto makers. Branches were very expensive to establish and maintain, and branch managers lacked the motivation of a franchised dealer to sell the manufacturers' product.

The franchised dealer system had many advantages for the auto manufacturers. It enabled them to attract aggressive salesmen who were financially strong to be dealers. Dealers were able to provide sales forecasts for the auto makers, making production control easier. Dealers reduced selling and transportation costs. Dealers could be required to handle only the manufacturers' products. Finally, the dealer system gave the manufacturers greater control over distribution and allowed them to require extensive investments in the dealers' physical plant.

The present marketing channel is a contractual vertical marketing system and a franchise system that utilizes exclusive distribution in market coverage. It is a vertical marketing system because it is planned and coordinated as a unit. It is contractual through the franchise agreement. A retail franchise system is one in which a supplier contracts with his dealers to sell the product at retail. The automobile dealer franchise system is one of the oldest and most successful of this type of marketing arrangements. New automobiles are distributed on an exclusive intensity of distribution degree: this means there is only one dealer per market.

The development of the franchised dealer channel of distribution for new automobiles by the domestic automobile manufacturers is an interesting series of trial and error management decisions. Much of the development of the system was due to the efforts of aggressive middlemen, not the carefully laid plans of the manufacturers. Had not the system evolved in the way it did, automobile marketing as we know it today might have been quite different.

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