

## **The Effects of Economic Convergence on the Formulation of Marketing Strategy: An Analysis of the European Automobile Industry**

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### **ABSTRACT**

This article investigates the transition of the business environment of the automotive sector in Europe through examining data sets between 1994 and 2004. The dynamics of the internal market, fiscal convergence, industry specific policy and measures such as competition directives, WVTA, block exemption seem to have affected intra trade, price convergence and national market dominance. The findings of this study indicate that the environmental transition in Europe promoted the EU automotive market to become more competitive and yet less distorted and less dominant which provides particular marketing implications in terms of marketing cost and networks, product attributes, and pricing strategy.

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## I. INTRODUCTION

In order to formulate an effective marketing strategy, an appropriate understanding of the market condition is an essential requirement. The changing context of the market condition such as market concentration and growth have been found to have a significant impact on price levels, advertising expenditure, and the number of models offered (Boulding and Staelin, 1990; Craig, Douglas and Reddy, 1987). The formation of the internal market in the EU seems to be the most significant environmental change demanding the refinement and adjustment of marketing strategy for firms from within and outside the EU. A high degree of market convergence seems to imply the need for shifting strategic direction towards more integration than responsiveness to national differences.

Most of the physical and administrative barriers were removed after the adoption of the Single European Act (SEA) in 1987, and the EU Treaty in 1992 secured the free movement of capital and service. Together with the formal introduction of the single currency in 2002, the EU has been drawn near to the economic union assuring a larger and more converged market. Such a sizable market with reduced barriers may be served from smaller numbers of larger plants, located for greater economies of scales (Yannopoulos, 1990; Sapir, 1996; Amiti, 1999). The rationalization of industrial activities results in dynamic growth and efficiency which promote the competitiveness of firms and competitive environment within the European market (Savary, 1993). In line with the transformation of the marketing environment, companies face uncertainty including both threats and opportunities (Kotler, 1994).

The objective of this study is to identify the marketing implications of economic convergence in Europe and specific consequences with the particular reference to the transformation of industrial structure, price structure, technological dimension and the competitive conditions. Considering that the formation of the EU has been significant for the firms within and outside Europe, it seems meaningful to attempt to identify what changes have been made and how this can be interpreted for the marketing strategy.

This study is comprised of three sections undertaking analysis followed by discussions and marketing implications. The first section is devoted to the literature review in the search for the relevant factors determining the environmental transition stemming from the completion of the internal market. The second section provides the approach of this study and the source of data to relate identified environmental factors and the effectiveness of marketing strategies. The third section examines the transformation of industrial structure and competitive environment by incorporating data from between 1994 and 2004 relating to industrial concentration, trade flows, price structures and market share.

## II. LITERATURE REVIEW

The consequences of economic integration affecting the competitive environment in the EU are comprised of static and dynamic effects stemming from market size and efficiency gain (Balassa, 1961; Dunning, 1992; Savary, 1993; UNCTC, 1990; Yannopoulos, 1990; Hold and Reed, 2004). Together with increased size of firms within the region (Molle, 1994), economic convergence accelerated the industrial concentration and rationalization (Acocella, 1992). Reduced costs due to the removal of

tariff barriers enhance the competitive position of a supplier and this encourages European firms to rationalize industrial structures (Rawlinson and Wells, 1993). Despite their origin, multinationals holding multiple marketing networks may reorganize to serve such a sizable market from smaller numbers of larger hubs, located according to comparative advantage to derive greater economies of scales (Yannopoulos, 1990; Savary, 1993). Several empirical approaches confirm increased industrial concentration within the EU (Jacquemin, 1990; Brhlhart and Torstensson, 1996; Sapir, 1996; Amiti, 1999).

The automotive industry shows clear instance which reflects industry level transformation and sensitivity to measures and regulations of the internal market. The trend to international concentration by way of M&A or strategic alliance has been clearly evident in the European automotive industry since the end of 1980s. Industrial concentration and rationalization seem to be the engines for the transition of the automotive sector and they are promoted by economic convergence and expectation for the further expansion of the market (Salvatori, 1991).

In order to assess the effects of the internal market on the automotive industry, it is necessary to understand the problematic features of the European automotive industry. Firstly, the most important and distinctive feature of the European automobile industry was that there had been a national dominant producer in each member country. In the mid-1950s the major European markets had domestic producers' shares in excess of 90 percent. Secondly, the price variance in the European market approached 36 per cent between Euro zone and 61 per cent between Euro zone and non-Euro zone countries. This was because motorcar manufacturers deployed different pricing policies for different countries. Thirdly, the state-industry relationship also was strongly related. In the 1980s, national aid for less competitive domestic manufacturers did not form an effective instrument for structural adjustment and left the European automobile industry vulnerable in the competitive world automobile market (European Commission, 1991). These problematic features of the industry inevitably triggered industrial restructuring and economic integration seemed to have contributed as a catalyst. The aim of the internal market is to remove the barriers that create nationalistic sales patterns. Together with industry particular measures, the removal of trade barriers, less distorted flows of information would result in enhanced competitive environment (Ernst & Young, 1997).

Together with industry level efficiency gains, implementing relevant measures and policies, such as the fiscal and technical harmonization and the removal of various trade restrictions coupled with regulatory framework limiting unfair practices, has been the main catalyst for the transformation of competitive contour in the EU (Acocella, 1992; Molle, 1994). Sector specific measures such as Whole Vehicle Type Approval (WVTA, 70/156/EC, amended by 92/53/EC), emission control, block exemption and legislations on state aid are all closely related to the transformation of marketing environment in Europe (Smith and Venables, 1990).

Theoretically, dominant national makers would no longer enjoy their beneficial position, as the national boundaries became less evident within the region. In particular, state aid is considered illegal and national governments have been restricted to help less competitive domestic makers. The discriminatory pricing would be less feasible according to the progress of the monetary union as the price structure in the market would become clearer for customers who would willingly cross borders to purchase cars.

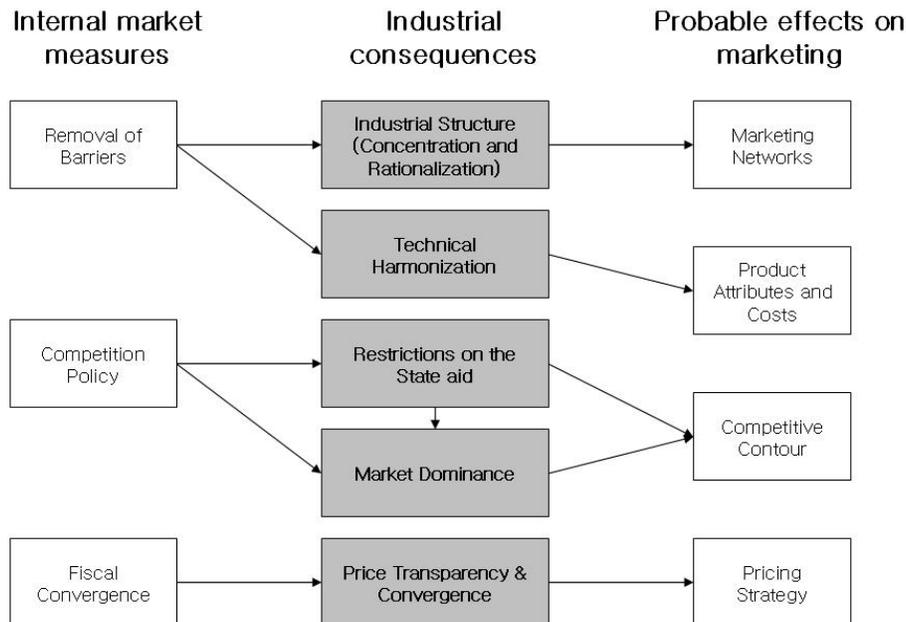
### III. METHODOLOGY AND DATA

The purpose of this study is to be achieved by the examination of the factors affecting marketing environment of the European automotive industry. Based on the above considerations, this study analyses industrial concentration, technical barriers, fiscal convergence, and competition policy and related measures to identify the transition of marketing conditions.

Firstly, the empirical examples of corporate concentration and rationalization efforts matched with the chronological incidences of European integration together with further qualitative review are employed in the search for the meaning of distribution and marketing networks. Secondly, this study examines the effectiveness of technical harmonization. Community wide standards may imply less variation of product attributes and greater possibility of the marketing cost reduction. Considering the technical harmonization effective, this should facilitate free circulation products within the EU. As a consequence, the destination of intra trade among member states has to be more widely dispersed. This proposition is examined by analyzing external trade data and geographical dispersion and flows of automobile trade. Thirdly, general transformation of competitive environment is examined by analyzing the time series data of the national market composition and the number of state aid. In order to show the transition of national dominance, the shares of indigenous markers in each local market in 1994 and 2004 are compared as the changes in the number of subsidies are reviewed. Finally, pricing strategy seems to be significantly affected by the introduction of single currency and subsequent price convergence within the markets. This study therefore examines the changes in price variances between 1994 and 2004. The difference of price variance should converge unless variable has insignificant influence. Figure 1 summarizes the conceptual framework of the analysis of this study.

The data are obtained from various statistical reports relating to the European automotive industry such as ACEA, VDA, CCFA, SMMT, and Eurostat covering major automobile manufacturing countries in Europe such as Netherlands, Sweden, Belgium, Italy, UK, Spain, France, and Germany comprising over 97 percent of total production in 2004. The production data are employed for the Gini-coefficient to acquire the degree of geographical concentration between 1994 and 2004. The removal of technical barriers affecting trade flows is measured by the transition of intra-EU trade denominated by production of major motorcar exporting countries. The cross-country exporting data from major motorcar manufacturing countries to the 15 EU member states are used to examine the dispersion of geographical distribution of intra trade. Changes in prices differences within Euro Zone between 1994 and 2004 depend on 'Report on car price' published by competition DG, European Commission. National motorcar sales by makers published by ACEA are used to identify changes in national dominance. Relating to the number and volume of state aid on the automotive industry, state aid for manufacturing sector is applied due to the lack of industry specific data.

**Figure 1**  
The diagram of the conceptual framework



## IV. ANALYSIS

### A. Competitive Environment

On the basis of Article 93 of the Treaty of Rome, regulations on state aid stated that all national aid programs should not be allowed. The purpose of this measure is to ensure that removal of barriers to trade is not negated by member states protecting their industries through unjustified subsidies or other forms of support which distort fair competition. Since the automotive industry is regarded as a critical sector, subsidies to ailing national automotive industries have prevailed throughout the major motorcar manufacturing states in the EU. State aid in the form of debt write-offs, and regional assistance have resulted in an unfair environment for competition and prohibited restructuring of the industry.

The commission recognized that national aid for less competitive domestic manufacturers did not form an effective instrument for structural adjustment and left the industry vulnerable (European Commission, 1991). Surveillance by the Commission of state aid to the automotive industry was introduced in 1989, based on Article 93(1). Member states should not grant state aid to the automotive sector without prior notification to and approval by the Commission according to Article 93(3) (European Commission, 1989). Under the revised framework, which came into force in 1996, aid projects which exceed ECU 17 million are subject to prior notification. The objective of

the measure is not only to ensure full transparency of any national aid to the industry, but also to maintain effective discipline over grants that erode fair competition.

If the competitive environment became fair due to regulations on the state aid, the decrease in the number of state aid cases and the national dominance of indigenous makers should be observed. In order to show the transition of national dominance, the shares of indigenous makers in each local market in 1994 and 2004 are compared as the changes in the number of subsidies are reviewed. Relating to the number and volume of state aid on the automotive industry, state aid for the manufacturing sector is applied due to the lack of industry specific data.

Since this program was adopted, state subsidies to the shipbuilding and steel industry have disappeared and fitter industries have emerged as a consequence. Table 1 shows a reduced level of state aid in manufacturing sector. More than 28 percent of state aid has been reduced over the decade. This is a reduction of around 0.4 percent of total GDP which is equivalent to ECU 36 billion.

**Table 1**  
Trends in the level of state aid in the EU member state, 1994-2004

	1994	1996	1998	2000	2002	2004
Total state aid* (in billion Euros)	58.9	56.7	48.8	40.9	46.8	42
As % of GDP	0.82	0.71	0.56	0.43	0.48	0.43

\* Total state aid less agriculture fisheries and transport

Source: Eurostat

The commission has scrutinized the state aid to the motorcar manufacturers in Europe. Several cases under the investigations by 2003 included ECU 50 million of German government's aid for Daimler Chrysler AG for the construction of the Berlin engine plant and ECU 1.2 billion package for the Leipzig plant of BMW AG. State aids to Ford's Bridgend engine plant in Britain and Azambuja plant of Opel in Portugal worth ECU 17.4 million and ECU 41.7 million respectively were under the commission's scrutiny.

The abolition of block exemption seems to be another critical factor harnessing the autonomy of motorcar manufacturers and more freedom for dealers and customers across the Europe. Even before the full abolition at the end of 2005, a few manufacturers experienced intervention for the unfair practices. In January 1998, Volkswagen was fined ECU 102 million for instructing Italian dealers not to provide the Audi model to German and Austrian consumers. Renault, Peugeot, Volvo and Opel also had to face investigation for similar indictments.

Limited state aid and restrictions to unfair practices in the market have facilitated a competitive but fair market environment. In a fair market, national dominance of local makers should naturally be diminished. Motorcar manufacturers in Europe by 1994, even when the progress of economic integration was evident, used to have large domestic distribution infrastructures and the preference for locally produced cars played a significant role.

**Table 2**  
Changes in national dominance in major motorcar manufacturing countries in the EU  
(1994~2004)

		A. Domestic	B. Foreign	C. Grand Total	A/C* (%)
Germany	1994	1,941,731	1,234,493	3,209,224	60.5
	2004	1,517,407	1,749,419	3,266,826	46.4
France	1994	1,443,825	855,092	2,298,917	62.8
	2004	1,482,788	990,772	2,473,560	59.9
Italy	1994	845,306	972,335	1,817,641	46.5
	2004	761,457	1,766,004	2,527,461	30.1
UK	1994	950,618	1,188,399	2,139,076	44.4
	2004	557,764	2,399,438	2,957,192	18.9
Spain	1994	539,630	548,065	1,087,695	49.6
	2004	537,764	1,353,580	1,891,344	28.4

\* Wilcoxon Signed-Rank Test = -2.023, Asymp. Sig.= 0.043.

Source: ACEA

The national dominance of local makers, in terms of market share, shows clearly different figures over the decade. Table 2 shows the evident reduction of national dominance by indigenous makers and increased market intervention of foreign makers. The Wilcoxon signed-rank test comparing the means for 1994 and 2004 groups of cases also shows statistically significant differences at the 0.05 level. Based on these observations, it is expected that dominant national makers would no longer enjoy their beneficial position, as the national boundaries would be less evident within the region.

## B. Marketing Costs and Product Attributes

It is suggested that standardization of production should reduce costs and harmonization of testing may permit easy access to Community wide markets (Smith and Venables, 1990). National level technical requirements in Europe acted as a considerable barrier incurring costs for re-engineering and testing to local specification. Additional costs to meet the national specifications are alleged to reach 10 percent of average production costs. Notably, technical differences are suggested as critical factors impeding trade flows within the region and increasing production cost (Lundberg, 1990).

The automotive industry is particularly sensitive to technical barriers because they affect all the areas of business activities including pre-production, production, sales and marketing (Lundberg, 1990). The survey of EC incidence of technical trade barriers confirmed that the technical barriers are the most effective on the automotive industry (EIU, 1991). In addition, technical harmonization also affects the product attributes toward increased standardization with less number of technical specifications conforming to the national requirements. This is likely to enable firms to concentrate more global standardization of their products and pay less attention to the local applications.

In June 1992, 45 directives laying down rules for vehicle design and standard facilitated agreement of the EU type approval procedure for passenger cars named

Whole Vehicle Type Approval (WVTA, 70/156/EC, amended by 92/53/EC) were put forward. This replaced national regulations with community wide standards which mean that once a vehicle receives type approval in a country, it can be circulated in any other member state within the EU. This should positively affect the volume of trade flow and its geographical dispersion.

The effectiveness of this measure is assessed by considering its contribution to the trade flows within the region in terms of volume and geographical dispersion. The more trade flow since the adoption of technical harmonization may indicate the validity of this measure provoking cost saving effects in R&D and production. Therefore the removal of national technical requirements replaced by WVTA should reduce impediments for intra trade. Table 3 shows the changes in the motorcar trade flows of major exporting countries over the decade. This figure presents moderate increase of export ratio which supports the propositions of harmonized technical requirements and increased intra trade. There should be other possible factors affecting the intra trade flows. However, considering the national technical requirements had posed critical trade impediments, the relation between WVTA and increased motorcar trade flows in the EU is worth noting.

**Table 3**  
Intra-EU export/production ratio of major motorcar exporting countries in the EU (%)

	1994	1996	1998	2000	2002	2004
Germany	37.6	39.3	41.1	42.8	45.4	43.4
France	48.7	49.4	81.1	80.9	80.5	81.7
Italy	36.4	43.2	40.4	43.0	42.6	40.6
UK	34.2	36.0	47.5	51.8	44.6	44.8
Spain	65.9	69.4	69.7	71.8	71.8	70.3

Note: Data sets for France appear as net domestic production from 1998.

Source: ACEA

Technical harmonization proposition also considers that geographical distribution of intra trade should be dispersed. As the national legislation for technical requirements are eliminated, differences in market share should converge over the region where there are no technical obstacles. Table 4 indicates the standard deviation of export distribution over 15 EU member states from the major exporting countries. France and Italy show how dispersion of export destination over the decade became relatively even. Nevertheless recent geographical distribution of other countries' exports appears to be more concentrated than in previous years. In addition, the changes are found to be statistically insignificant when comparing geographical dispersion of 2004 with that of 1994. The Wilcoxon signed-rank test, comparing the standard deviations of market share of five major exporting countries, shows unchanged market dispersion.

**Table 4**  
Variations (standard deviation) of the export destinations of major motorcar exporting countries to the 15 EU member states 1994-2004 (%)

		1994	1996	1998	2000	2002	2004
Member State	Germany	6.5	6.5	6.5	6.7	8.0	8.0
	France	8.3	8.2	8.1	7.8	7.8	8.1
	Italy	9.7	9.1	8.5	8.5	8.6	8.4
	UK	6.4	6.7	6.8	5.8	5.6	7.2
	Spain	10.6	10.9	10.1	10.3	10.5	10.7
Average		8.3	8.3	8.0	7.8	8.1	8.5
Statistic		Wilcoxon Signed-Rank Test = -0.405, Asymp. Sig.= 0.686.					

Source: VDA, CCFa, SMMT, ANFIA, ANFAC

This indicates that technical harmonization tackling technical impediments responsible for uneven distribution of intra trade has marginal effects and resulted in insignificant influence for opening up of markets with fewer shares. However, this hypothesis is based on the assumption that export to member states with small market share is related to technical barriers. If the effects are similarly applicable to the level of market share in each member state, the distribution should remain unchanged. In this case, the result confirms that technical barriers are indifferent to or have insignificant effects on the uneven distribution of market share in the EU.

### C. Pricing Strategy

Fiscal convergence realized by the European Monetary Union (EMU) and the introduction of the single currency has facilitated comparability of the same product from different countries and also reduced the risk of exchange fluctuations. This provides foundations for the price convergence in the EU. As a consequence, pricing strategy of firms within the region seems inevitably affected.

Price discrimination has been less than unusual marketing practices. Motorcar manufacturers in Europe put different prices on different national markets for import restraints, differences in taxes and customer preferences (Gual, 1993). The price variances approached 36 percent between Euro zone and 61 percent between Euro zone and non-Euro zone countries. On the successful introduction of the single currency, the market price of motorcar is likely to converge. In parallel, the price competition among the local producers should be accelerated. The differentiation of price variance should converge unless this variable has insignificant influence.

Table 5 shows the price difference between minimum and maximum prices of 5 best selling cars in each segment. This figure shows the reduction of price differences over the past years. The trend is more visible from the end of 1990s when the qualified 11 member states announced the definitive exchange rate and started exchange operation for the Euro.

**Table 5**  
Changes in price differences within Euro zone 1994-2004

Segment	1994	1996	1998	2000	2002	2004
Small	28.34	26.48	23.80	21.72	19.54	18.88
Medium	22.18	22.56	25.74	23.20	23.80	20.82
Large	20.22	20.06	22.70	22.42	19.18	15.08
AVER	23.58	23.03	24.08	22.45	20.84	18.26
STDEV	4.24	3.24	1.54	0.74	2.57	2.92

Source: Report on car price (1994-2004), Competition DG, European Commission.

This trend is likely to be sustained in the future with the circulation of the single currency replacing national currencies and the removal of block exemption emphasizing customers' rights over the manufacturers and granted dealers extended independence to operate without restrictions or intervention from manufacturers (Guest, 1996). In terms of legislative guidance, the European Commission is determined to terminate price discrimination of motorcars between countries by favoring the possibility of parallel imports (Bureau European des Unions de Consommateurs, BEUC, 1989, Rule 123/85). Eroded autonomy of motorcar manufacturers may be observed not only in the control over the price but also in the dominance of market.

In addition to price discrimination, strategic margin for skimming pricing or predatory pricing to acquire initial market presence for outsiders is likely to be limited. This dimension of marketing strategy is particularly relevant to firms from outside. Considering the reasonable quality at a lower price has been prevailing mode of Korean motor car manufacturers, the convergence of price differences and subsequent reduction of general price level may create difficult environment for outsiders at the lower ends such as Korean brands.

#### **D. Marketing Networks and Distribution**

Rationalization efforts may be observed in the forms of relocation, merger, and concentration and the subsequent improvement of efficiency and dynamic growth suggested in the literature review. Industrial concentration accelerated by the economic integration (Acocella, 1992), increased the size of firms within the region (Molle, 1994) and further rationalization efforts should be observed. Such alliances and networks are emerging in the European automotive industry as they attempt to partially recreate the buyer-supplier relations within the integrated market (Womack et al., 1990).

Marketing networks and distribution channel are likely to be areas that most significantly affected. Within the context of economic integration, the market may well be served from the less number of geographical locations and the fragmented distribution channels would also affected to be concentrated.

For a practical examination, the empirical examples of corporate concentration and rationalization efforts matched with the chronological incidence of European integration are considered to have effects on the actual cases. If industrial transition has been affected by the completion of the internal market, rationalization and concentration efforts should coincide with the development of the EU. In this section, actual transition of the geographical concentration of production activity is measured by

employing the “Gini-coefficient” comparing the geographical distribution of production activities of motorcar manufacturers between 1994 and 2004. If the location of production is actually concentrated in the EU, the figure should increase in proportion.

The trend to international concentration by way of M&A and strategic alliance was clearly evident in the European automotive industry from the 1980s and the early 1990s. Until the 1980s, the concentration pattern of the automotive industry in Europe remained nation-centered. The structure of the European automotive industry started to change as M&A among the motorcar producers in Europe took place. During this period, Volkswagen acquired Auto Union and British Leyland; Fiat acquired Alfa Romeo and Lancia; Citroen acquired Panhard and Peugeot. Table 6 summarizes the major concentration of the automotive industry in Europe compared to the milestone of the institutional development of the EU. The surge of merger and alliances in the 1990s seems to coincide with the progress of the internal market facilitated by the SEA and the Maastricht Treaty.

**Table 6**  
Comparison between alliances and institutional development of the EU

	Institutional development in Europe	M&A and alliances
~1980s	- The Single European Act (SEA) entered into force on July 1987 for the achievement of the internal market	- VW – British Leyland - Fiat – Alfa Romeo, Lancia - Peugeot – Citroen
1990s	- The treaty on European Union was signed in Maastricht on February 1992, entered into force on November 1993. - 45 directives of EU type procedure named WVTA (Whole Vehicle Type Approval) replaced national rules in June 1992	- Ford – Jaguar - GM – Saab - BMW – Rover - Ford – Mazda - Benz – Chrysler - VW – Rolls-Royce - Ford – Volvo - Renault – Nissan
2000s~	- From 2002, the Single Currency (ECU) was introduced	- GM – Fiat - GM – Daewoo

Source: Various sources

The Gini-Coefficient, by using production data of major motorcar manufacturing countries in the EU, presents the degree of geographical concentration. The major motorcar manufacturing countries in the EU are Netherlands, Sweden, Belgium, Italy, UK, Spain, France, and Germany comprising over 97 percent of total production in 2004. The result indicates that the degree of geographical concentration of production activities in 1994 was 0.4125 while the figure increased to 0.4504 in 2004. This means that the inequality in the distribution of production activities has marginally increased. Hence geographical concentration seems also to be gradually increasing according to the progress of the internal market.

Firms from outside could also take advantage of economic integration by means of consolidating their production and marketing networks within the region. However, concentration and rationalization of production and marketing activities are likely to

enhance the competitiveness of firms inside and this aspect may threaten outside firms with stronger competition from indigenous entities.

## V. SUMMARY AND DISCUSSIONS

The completion of the internal market facilitated by specific measures and policies together with firm level economic consequences of economic integration is found to have effects, to a certain extent, on the transition of the automotive industry and subsequent marketing environment in the EU.

Findings of this study may be summarized in four ways (Table 7). Firstly, the size and number of state aid packages are gradually decreasing and market dominance of local makers has been significantly diminished. It thus appears that the EU automotive market is becoming more competitive but it seems less distorted and less dominated by indigenous makers and this result is partly affected by the completion of internal market and industry specific policies and measures for the automotive industry.

Secondly, the removal of physical and technical barriers on the flow of internal trade has insignificant or marginal significance. Overall the volume of internal trade has increased but geographical distribution remains unchanged despite the expectation of wider dispersion across the member states. Consequently, the proposition of this study that introduction of technical harmonization to reduce technical barriers could affect the marketing cost relating to product attributes with less efforts for localization may be rejected. However, structural transformation by means of concentration and rationalization efforts seems to be in progress and marketing costs related to this dimension are likely to be reduced.

Thirdly, price differences are reduced over the decade due to the fiscal convergence and the introduction of the single currency. Further discriminatory practices of motorcar manufacturers are likely to be restricted together with the abolition of the block exemption. This aspect of the marketing environment provides less capability of firms for discriminatory pricing and predatory pricing particularly for outsiders.

Finally, the evidential industrial concentration and rationalization of the European automotive industry affected by the completion of the internal market implies that fragmented marketing networks and distribution may be consolidated to serve the entire region.

**Table 7**  
The effectiveness of environmental transition and marketing strategy

	Environmental Transition	Marketing Strategy	Effectiveness
IV.A	- Reduced National Dominance - Restricted States Aid	- Competition Strategy	Significant
IV.B	- Technical Harmonization	- Marketing cost - Product Attributes	Marginal or Insignificant
IV.C	- Price convergence	- Pricing discrimination and predatory pricing	Significant
IV.D	- Industrial concentration and rationalization	- Marketing networks and distribution	Significant

Based on these findings, the competitive environment in the EU seems to have had a favorable turn for outsiders. From the perspective of marketing strategy, strategic direction reflecting the characteristics of the automotive industry and possible discrimination against outsiders from potential gains and fair competitive environment derived from the completion of the internal market have been noted.

Firstly, the pressure for responsiveness to the local requirements stemming from the different needs of customers, distribution, need for product adaptation, different government regulations and different market structure (Prahalad and Doz, 1987) are reduced for outsiders accessing the EU markets compared to indigenous makers critically depending on their national markets. This seems to provide significant freedom for outsiders enabling a transnational strategy rather than responsiveness to national differences. An empirical consideration of Japanese motorcar makers' strategies in Europe found that Japanese firms employed relatively standardized marketing strategies compared to European makers and successfully maintained their market position despite import restrictions (Grein et al., 2001).

Secondly, provided that an integrated market renders opportunities by homogeneous demand in the sizable market and efficient supply, the question should be raised whether these would also be available for non-European firms serving the market from outside and actually located within the integrated region like indigenous firms. According to explicit policies, European markets are accessible for non-European firms (European Commission, 1991). The EU aims to promote the right conditions for businesses and establish a competitive environment in the internal market (Bulletin EU 7/8-1996, Industrial Policy). The intrinsic purpose of this policy is that the removal of third country quotas and similar measures will expose the national markets to international competition and increases the competitiveness of European industries. Nevertheless, complete openness to non-European firms while indigenous firms are in trouble is unlikely to happen. This is because the source of competitiveness of non-European firms is possibly stemming from low labor costs, an abundance of resources, and government supports which could significantly distort the competitive environment.

Accordingly, non-European firms serving markets from outside may have restricted access to opportunities. In particular, the positive effect of the elimination of NTBs in the internal market is likely to be conveyed to member countries rather than non-members (Kreinin and Plummer, 1992). This may be supported by the suggestion of Yannopoulos (1992) that the elimination of NTBs to trade in the internal market will bring advantages in favor of the firms inside the internal market. Firms from outside serving the internal market through exports are likely to be discriminated against as their competitive advantages are eroded. This triggers impending requirements for firms from non-member countries to locate within the integrated region. Thus, firms previously exporting to the EU may engage FDI, motivated by the location advantages of EU production (Hansen et al., 1992) as well as the fears of a 'Fortress Europe' excluding outsiders (Welford and Prescott, 1992).

Foreign firms, supported by the external trade policy which have restricted imports and have promoted direct investment, have been provided with an equal opportunity regardless of their origin, to benefit from the potential gains offered by the single market (Welford and Prescott 1992: 8). A number of studies have suggested that the dynamic effects of efficiency and growth are equally beneficial for the external firms within the integrated market (Balassa, 1961; Corden, 1972; Venables, 1987). The

findings of this study that the automotive market in the EU became competitive but transparent and less dominant by indigenous firms also support these suggestions showing that the transformation of market environment favorably turned to non-European firms.

It is worth noting that these advantages are likely to be valid for non-European firms only on the condition that they locate within the integrated market depending upon the degree of localization. The removal of barriers provides the same benefit to outside firms as those firms within the integrated region. However, firms with well built networks or value added activities within the integrated region may benefit most (Dunning, 1993). Hence the successful exploitation of marketing opportunities of non-European companies relies on how effective the localization will be within the EU. The categories of localization should cover most business activities such as human resource management and parts procurement, meeting the requirement of local content, sophisticated R&D in compliance with local consumers' preferences, the management of quality, establishing logistic channels, and setting up a commercial network between sales subsidiaries and consumer management.

## VI. CONCLUSION

European economic integration has become a prominent economic phenomenon in the changing context of the global economy. Both at the macro and micro economic levels, companies from within and outside the integrated region have been affected significantly. The changing marketing environment of the automotive industry is one of the clearer cases directly affected by the elimination of fiscal, physical, and technical barriers. The structural transformation as well as competitive condition in the industry has been affected by the dynamics of the internal market and industry specific measures.

Findings of this study indicate that together with regulated state aid, proven to be limited and diminished, decreased national dominance by local makers ascertained increased competition within the industry. Technical harmonization had marginal effects on intra trade, marketing cost and product attributes where production cost reduction effects remain valid. As expected, the dependent variable, the variations of car price showed clear evidence of convergence. Eroded autonomy over price control and dealers is likely to promote a sound competitive environment within the industry and yet capability of new entrants for pricing strategy seems to be restricted. The industrial concentration aiming to achieve economies of scale and further rationalization efforts within the industry are considered to be related to the institutional development of the EU. This facilitates firms to form more consolidated marketing networks as less fragmented distribution channel is required. So, static and dynamic effects of borderless internal market transformed the structure of the industry in various dimensions and resulted in more competitive and yet fairer and less dominant market conditions with particular marketing implications for firms from within and outside.

From the perspective of firms from outside, however, the economic consequences of the completion of the internal market may not always be positive. In practice, it seems rather protective against market access for foreign firms. The opportunities derived from the internal market may not be fully exploitable by serving the market from outside. Market presence by means of physical location and successful localization within the EU is suggested as a critical element to abate the degree of

discrimination between indigenous and outsider firms and to exploit marketing opportunities of internal market.

This study contributes by identifying what changes have been made in the automotive markets in the EU for last decade according to the completion of the internal market and suggesting the subsequent marketing implications. The partial limitations of this study is stemming from the lack of company level data presenting marketing cost, changes in product attributes and pricing data. This study used trade flows and destination for assessing effectiveness of technical harmonization. Direct comparison of marketing costs in time series is required to identify the effects of changing marketing environment. Further detailed study should follow for the industry specific examination of difference between remaining outside and being an insider for foreign firms in search of the external implications and the effects of the internal market on outsiders.

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