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The Effect of Organizational Sales Management on Dealership Performance

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Abstract: The objectives of this paper are to grasp the current situation of Japanese automobile dealers (sales outlets) and discover what are the effective capability and management practices for them. We analyse quantitative data obtained from questionnaires distributed to new vehicle sales outlets in the Tokyo region of Japan. We have three major findings. First, the overall sales performance of Japanese sales outlets appears to be unsustainably low, suggesting there will be ongoing consolidation even after a post-pandemic recovery. Second, the paper provides empirical evidence that there are significant differences in the new vehicle sales performance of sales outlets across vehicle brands and segments. Third, we found that acquisition capability and job role formalization at sales outlets have significant negative effects on new vehicle sales performance. The results suggest the importance of role flexibility at sales outlets.

Keywords: sales management; car dealers; dealerships; showrooms; cross-functional cooperation; new customer acquisition; customer retention; formalization; vehicle brands; Japan; managers

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The Effect of Organizational Sales Management on Dealership Performance

1. Introduction

After reaching a peak of 7.77 million yearly vehicles sales in 1990, the Japanese auto market gradually declined until it plateaued around 5 million vehicles per year from the mid-2000s. The global financial crisis (2008-2010) and the 2011 Great East Japan earthquake caused sales to fall below 5 million, dropping as low as 4.21 million in 2011. However, the Japanese auto market showed resilience in its rapid return above 5 million in 2012, a level which it largely kept throughout the 2010s. This achievement is notable given general demographic trends in Japan marked by a rapidly aging society and declining population.

Amid the COVID-19 pandemic, new vehicle sales in Japan to fell to 4.66 million unit sales in 2020 (-11.5% yoy). Japan's decrease was less severe than the same period in the U.S. (-15.8%), Germany (-19%), and the UK (-29.4%), though much worse than China (-1.9%). On the other hand, faced with the ongoing pandemic and subsequent semiconductor chip shortages, the Japanese new vehicle market continued to decline in 2021 (-3.3% yoy to 4.45 million), which contrasts with increases seen in the U.S. (+1.72%), the UK (+11.5%) and China (+3.8%), although it is much better than the continued steep drop seen in Germany (-10.1%).

Figure 1 shows the trend in new vehicle sales in Japan. The dotted line shows a negative linear trendline. While recognizing the difficult conditions facing Japanese new vehicle dealers and sales outlets during these years due to multiple major shocks, it is important to note that this fifteen-year trendline becomes flat if the most recent two years (2020 and 2021) are removed. Nevertheless, demographic trends suggest the long-term prospects for new vehicle sales in Japan are not good, with the best-case scenario being a stagnant market.

In the title of this paper, we use the word, dealership, to refer to both the dealer and its sales outlet(s). In Japan it is not uncommon for a new vehicle dealer to operate multiple sales outlets. According to a 2021 survey by the Japan Automobile Dealers Association, the average new vehicle dealer in Japan operated 15 sales outlets. A sales outlet or a sales point refers to a new vehicle showroom, where customers purchase vehicles through interactions with salespeople.

Faced with the auto industry's sales characteristics in Japan[1] and the poor market prospects, improving the effectiveness and efficiency of sales management at new vehicle sales outlets in Japan has become an increasingly pressing issue. There have been some small-scale attempts to the adjust the overall business model of dealers and sales outlets, such as through a subscription sales model where users are charged on a per-kilometre-driven basis. Internet sales in collaboration with local dealers are also being pursued on a limited scale. Over time, these initiatives may produce major changes in the industry. However, in the near to mid-term the vast majority of new vehicle sales can reasonably be expected to take place at dealers through sales outlets using traditional methods and these tend to be the main focus of management improvements at sales outlets.

Author

Figure 1: Japanese Market Auto Sales (units)

This paper describes the results of a large-scale questionnaire survey of vehicle sales outlets in Tokyo and surrounding areas. The questionnaire collected data on the current state of new vehicle sales outlets during the severe market conditions caused by the pandemic-induced sales declines in the Japanese new vehicle market in 2020 and 2021. General descriptive results from our survey are shown in Table 1[2]. (See Table 6 for a breakdown of this descriptive data by brand.)

Table 1: General Descriptive Results (by Segment Average)

Segment	Monthly Vehicle Sales per Sales Outlet Employee	Monthly Vehicle Sales per Salesperson	Options Value (JPY)	Number Fulltime Employees at the Sales Outlet
Full-Line	1.1	3.9	400,000	17
Niche	0.9	3.2	390,000	17
Micro	1.2	4.5	280,000	16
Luxury	0.7	2.9	1,140,000	24
All Segments	1.1	3.8	460,000	18

Our understanding is that, while the number of vehicle sales at Japanese new vehicle sales outlets have always tended to be rather low compared to most other countries, our data set's average of approximately one monthly vehicle sale per sales outlet employee (includes service personnel, managers and others) seems unsustainably low. Average monthly new vehicle sales per salesperson in Japan is 3.8 units for our entire data set. In comparison, NADA (2022) indicates that the average monthly retail new vehicle sales per new vehicle salesperson in the U.S. is 9.4 units, which is more than two times higher than Japan. As such, even if the Japanese market rebounds in 2022 to the long-term trendline of around 5 million vehicles per year, there will likely be continued pressure within the industry for retrenchment through the consolidation of sales outlets and dealers in Japan.

In addition to investigating the state of the Japanese new vehicle sales outlets during the pandemic shock, our questionnaire examined management practices at Japanese new vehicle sales outlets in a market that has trended downward over the very long term (thirty years) but has been stable over the medium to long term. The

questionnaire measured the sales and service capabilities and practices of new vehicle sales outlets. However, due to limitations caused by our measurement of service performance, in this paper we limit our analysis and discussion to new vehicle sales performance. Using multiple regression analysis, we found that significant differences in sales outlet sales performance exist across vehicle brands and segments.

Our results also show that some variables that cover sales outlet management capabilities and practices have significant effects on sales performance. For example, a high level of job role formalization had a significant negative effect on sales performance. While this example is straightforward, our finding that (customer) acquisition capability had a negative effect on sales performance was unexpected. It suggests that management of new vehicle sales outlets is hardly straightforward. Managers must engage in a delicate balancing act between satisfying current and future customers.

We built our questionnaire based on the academic literatures covering sales and marketing capabilities, but the survey was also greatly informed by a longitudinal case study we conducted that investigated how sales outlet managers reconcile pursuing both employee satisfaction and customer satisfaction. This case study was conducted over a four-year period at an anonymous Japanese dealer that has around 27 new vehicle sales outlets, mainly in urban and suburban settings. Findings from this case study were compared with qualitative data collected at Shiga Daihatsu, a mid-size dealer with 10 new vehicle sales outlets located in suburban and rural settings in central Japan.

2. Literature Review and Hypotheses

Holweg and Pil (2004) describes the pressing need to focus on the sales and distribution side of the auto industry. Numerous papers in the *International Journal of Automotive Technology and Management* provide responses to this call. Behr (2004) Nadin (2008, 2009), Adebanjo (2008), Buzzavo (2008) and Lewis and Howard (2009) present detailed examinations and investigations of the OEM-dealer relationship. The role of the Internet as a potentially disruptive force in vehicle sales and distribution was investigated by Nishimura and Morita (2002), Shioji (2004), Ansart and Duymedjian (2006), Ansart et al. (2006), and Chu and Kim (2006).

The important role played by Japanese vehicle dealers in the productive system of Japanese automakers has been noted in Womack et al. (1990) and Shioji (2002). At the same time, in Japan, automobile showrooms and their adjacent service departments have long been considered a particularly hard place to work and are typically viewed as one of the dreaded “3K workplaces (*kitsui* [hard], *kitanai* [dirty], and *kiken* [dangerous])”. Due to this reputation and the declining population demographics, vehicle dealers in Japan have sought to improve their employee satisfaction performance so that they can continue to attract and retain talent (see, for example, Tanaka, 2006). Investigating how dealers seek to achieve both employee satisfaction and customer satisfaction through their showroom management is an important topic in Japan.

Hesket et al. (1994) and Loveman (1998) describe the Service-Profit-Chain model, which argues employee satisfaction should produce customer satisfaction. Empirical evidence for the SPC model has been mixed. For example, Whitman, Van Rooy and Viswesvaran (2010) and Hogreve et al. (2017) found support for the SPC model. However, Fujimura (1997) and Silvestro and Cross (2000) found a negative relationship between employee satisfaction and customer satisfaction. Kida (2020) argues that lack of discretion and imbalanced internal service for employees are a cause of the satisfaction gap between employees and customers. Kida (2020) also found that shared leadership inside new vehicle sales outlets enables them to satisfy both employees and customers. Furthermore, as a way to reconcile these mixed results in the literature, Kida (2020) found that included within internal service (which is posited to produce employee

satisfaction in the SPC model) are items such as multiple routes for cross-functional coordination. This cross-functional coordination, while it can lead to more satisfied customers, it can also increase complexity and ambiguity for employees and thereby exert a negative effect on their satisfaction levels.

Automotive sales in Japan are conducted through a franchise system, which is largely similar to that found in the U.S. (Shioji, 2002), with some notable differences, for example, Japanese automakers often have equity stakes in their dealers and Japanese dealers tend to only sell one vehicle brand. The U.K. franchise system and the challenges it faces in a downward trending market is described in Omar (1998), which seems to have also largely held for the situation in Japan in the late 1990s.

The internal operations of a typical Japanese vehicle dealer are described in Imai (2012), which also describes kaizen activities conducted at a Toyota dealer with multiple sales outlets in Kochi Prefecture, which is made up of largely rural settings far away from the major population centers of Japan. Ishizaki (2008) describes Toyota's overall sales and marketing system. Tsukada and Yamada (2014) presents a case study that found support for the service-profit-chain in a small Toyota dealer that has three sales outlets in the largely rural settings of Ehime Prefecture, Japan, which is located next to Kochi Prefecture. Kosuge and Shiu (2019) introduce a case study of the deep involvement of dealers and sales outlets in creating superior customer experiences in Japanese vehicle sales outlets.

Sato (2013) describes the important role the general manager (*tencho*, in Japanese) of a sales outlet in Japan plays in establishing the organizational routines related to vehicle sales and service. The study revealed that in sales outlets that successfully formed new organizational routines, the general manager at the sales outlets changed his or her perceptions to become more aware of overall organizational performance, including long-term performance, and exercised greater power over subordinates.

Hines et al. (2002) describes the roles played by dealers and sales outlets in the automotive value chain as well as typical operations of a sales outlet in the U.K. Fraser et al. (2013) surveyed dealers in Australia and discusses the increasing pressure on sales outlets to provide better quality. The model presented in Hines et al. (2002) and the market pressures described by Fraser et al. (2013) generally holds for describing automotive sales in present-day Japan. Both of these papers focused on customer satisfaction, with scant attention given to employee satisfaction. Overall, we found little research on employee satisfaction at new vehicle sales outlets.

Building on these realities of new vehicle sales outlets in Japan and drawing on the academic literatures for sales and marketing capabilities and case study research on new vehicle sales outlets (e.g., Kida, 2020[3] and Kida and Heller, 2021), we created a model with hypotheses on the various factors affecting sales performance in vehicle sales outlets, while controlling for favourableness of location and other key variables. Table 4 shows the main papers in the literature that were used to create our model.

As described above, new vehicle sales outlets in Japan are facing a severe external environment due to a declining population, structural changes in the industry, and the negative effects from the COVID-19 pandemic on sales and supply chains (notably semiconductors). Such an environment pushes sales outlets to improve their efficiency and strengthen their relationships with customers by building their front-line organizational capabilities. To understand what is needed to improve such capabilities, we have conducted a broad review of the literature on sales capability and the management of sales organizations. Based on this literature review, we built a model and a series of hypotheses to be tested. The dependent variable in our models is the estimated average monetary value of new vehicle sales per salesperson.

The Effect of Organizational Sales Management on Dealership Performance

Sales capability is defined as a "competency in the selling process that is enabled by salespeople knowledge, sales management skills, sales management planning and control systems, and relevant training systems for salespeople" (Krush et al., 2013, p.826). Sales capability consists of acquisition capability and retention capability. Nijssen et al. (2017, p.2) describes retention capability as enabling "a sales force to build and maintain existing customer relationships with the purpose to increase 'share of wallet' by for instance, closing more deals through up- and cross selling at a profitable margin"; acquisition capability is defined as competency in the selling process in "generating attractive new leads and converting them into sales."

At an early stage of organizational development, it is especially important for sales organizations to acquire new customers to increase sales and achieve positive cash flow, with both retention and acquisition needed in subsequent development periods (Blattberg and Deighton, 1996). Resource limitations within a sales organization often cause there to be a trade-off relationship between retention and acquisition; however, overcoming this trade-off or minimizing it, so that an organization can do both at a high level, can produce improved financial performance (Nijssen et al., 2017). The Japanese new vehicle market is highly mature and most sales outlets need to pursue both customer retention and new customer acquisition. As such, we make the following hypotheses.

Hypothesis 1: Acquisition capability positively affects sales performance.
Hypothesis 2: Retention capability positively affects sales performance.

Sales tasks require support from other departments to respond customers' various demands (Plouffe and Barclay, 2007). Cooperation between personnel is needed when two or more salespeople are involved in responding to each customer, which seems to be increasingly common in sales organizations (Guenzi et al. 2016). Nijssen et al. (2017) found that cross-functional cooperation capabilities have a significant positive effect on sales capability. In order to understand the effect of organizational selling in Japanese new vehicle sales outlets, we include both cross functional cooperation and inter-salespeople cooperation in our hypothesis on cooperation.

Guenzi et al. (2016) found that customer targeting has a positive effect on customer related performance mediated through personal selling capability. They explain that "firms that engage in activities such as customer segmentation and prioritization, and use multiple sales channels and selling models to interact with different customers, tend to be more efficient and effective in allocating resources across different customers" (Guenzi et al., 2016 p. 3709). Cooperation and customer targeting seem to be not only important at customer touchpoints, but also in background activities such as decreasing non-value-adding tasks. Therefore, although past research has positioned cooperation and customer targeting as antecedents of sales capability (Nijssen et al., 2017; Guenzi et al. 2016), we examine their direct effect on sales performance, as shown in the following two hypotheses.

Hypothesis 3: Cooperation positively affects sales performance.
Hypothesis 4: Customer targeting positively affects sales performance.

Recently, some Japanese automobile manufacturers are trying to improve the performance of their new vehicle sales outlets by introducing the formalized and standardized management systems used in factories. Formalization relates to "the use of explicit rules, policies, and procedures" (Hempel et al., 2012, p.479). For example, Ku et al. (2008) describe efforts to introduce elements of the Toyota Production System (TPS)

into Japanese new vehicle dealerships to improve their efficiency. In multiple case studies, Yamashiro (2018) found that organizational performance improved with the creation of organizational routines, which can be understood to be a proxy for greater formalization. At the individual level, however, formalization conflicts with salespersons' desire for autonomy. Formalization has been found to exert a negative influence on the organizational commitment of salespeople (Agarwal, 1999). Hence, formalization would seem to be a double-edged sword.

Formalization can be categorized into organizational formalization and job role formalization. Organizational formalization can be defined as "the extent to which formal rules and policies are used to regulate behaviours and decision making within the organization and provides the basis for interactions between organizational members", whereas job role formalization is related to the "formalized job descriptions or roles within the team" (Hempel et al., 2012, pp. 480-481). Job role formalization can be defined as the extent of the usage of explicit rules, policies, and procedures about job and role within the team. Hempel et al. (2012) explains that organizational formalization has a positive effect on team members by facilitating the creation of organizational memory, providing strategic guidance, and reducing ambiguity. As such, organizational formalization positively affects team empowerment. In contrast, job role formalization decreases flexibility and hinders motivation. From theses literatures on formalization, we make the following two hypotheses.

Hypothesis 5: Organizational formalization positively affects sales performance.
Hypothesis 6: Job role formalization negatively affects sales performance.

In addition to the dealers' internal factors, which are the focus of H1 to H6, the brand to which each dealer belongs (e.g., Toyota, Nissan, Honda, etc.) and the segments to which the brands belong (full-line, *kei* [micro], niche, and luxury) have an effect on the variance of dealers' performance.

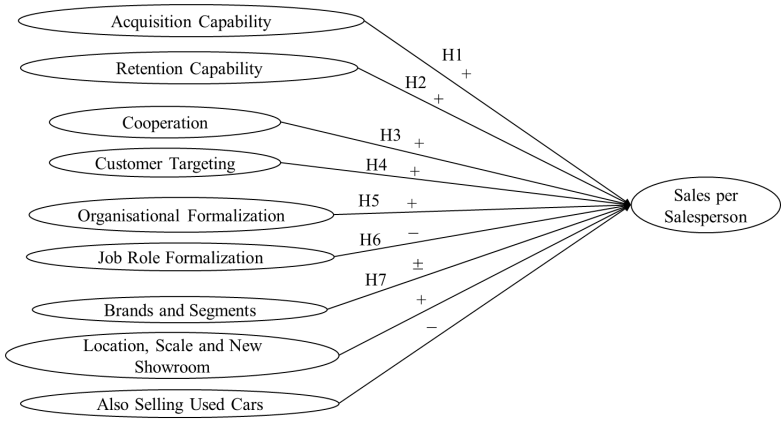
There is indirect evidence that brands will influence the variance of dealer performance. Xu et al. (2017) examined the effect of dealer service and product quality on customers. They found that service quality did not have a significant effect on customer satisfaction, while product quality did. However, Devaraj et al. (2001) indicated that both service quality and product quality had significant effects on customer intention to purchase in the automotive industry. Although the effect of the services provided by new vehicle sales outlets on customers is inconsistent, it can be said that the literature suggests that the effect of brands on sales performance is important.

According to Barney and Hesterly (2012), a group of firms that develop similar strategies to meet different types of customer needs is called a strategic group. Segments in new vehicle sales outlets correspond to what they call strategic groups. Since brands are nested in segments, we assume that their effects on dealer performance will be moderately correlated. Thus, we make the following hypothesis.

Hypothesis 7: Brands and segments affect the sales performance.

Figure 2 is a model based on the hypothesises proposed above.

Figure 2: Theoretical Model and Hypotheses



"+" means positive effect expected. "-" means negative effect expected.
"±"means mixed effect expected.

3. Method

We distributed a paper-based questionnaire in Nov-Dec 2021 (one round, with a reminder sent around two weeks later)[4] to 3,640 new vehicle sales outlets in Tokyo and the surrounding prefectures (Kanagawa, Chiba, Saitama, Tochigi, Gunma, Ibaraki), which together make up the Kanto region of Japan (population 42 million people). We created our list by performing a comprehensive review of each brand's website that allows users to search for new vehicle sales outlets selling that brand. From the data obtained from these websites we created a list of all the new vehicle sales outlets in this area. We excluded the small number of sales outlets which clearly do not have service facilities by checking dealer websites and not using the questionnaires (6) that were returned from such outlets.

658 questionnaires were returned for a response rate of around 18.0%. There do not seem to be any major non-respondent biases (e.g., the response rate for each brand is in the vicinity of its share of the Japanese market, regional variation was well balanced, etc.) We asked that the general manager of a sales outlet to answer the questions, and 87.0% of the returned questionnaires were answered by the general manager.

After deleting questionnaires with incomplete answers, we were left with 469 usable responses, which corresponds to 12.9% of mailed questionnaires. Table 2 shows the response rate for valid responses to the questionnaire by segment. Table 3 shows the response rate to the questionnaire by brand. We were able to gather responses from all of the major brands' new vehicle sales outlets, with response rates between 6 and 16% for brands and 8 and 14% for segments. Brands were classified into the following four market segments based on the generally accepted industry positioning in Japan: full-line (Toyota, Honda, Nissan), niche (Mazda, Subaru, Mitsubishi), Kei (Suzuki, Daihatsu), and luxury (Lexus and the imported brands, Mercedes Benz, BMW, Mini, Volvo, Audi, and Porsche).

Author

Table 2 Response by Segment

	Distribution	Valid answers	Response rate
Full-line	2326	326	14%
Niche	539	45	8%
Micro	437	54	12%
Luxury	338	44	13%
Total	3640	469	13%

Table 3: Response by Brand

	Distribution	Valid answers	Response rate
Toyota	1218	193	16%
Honda	511	79	15%
Nissan	495	54	11%
Subaru	183	14	8%
Mazda	212	22	10%
Mitsubishi	144	9	6%
Suzuki	234	26	11%
Daihatsu	203	28	14%
Benz	82	13	16%
Lexus	61	10	16%
Volvo	43	7	16%
Audi	37	5	14%
BMW	55	4	7%
MINI	45	3	7%
Porsche	15	2	13%

Questions were answered using a five-point Likert scale or discrete numbers. Multiple questions were asked for each variable, except the control variable, favourable location. For this question, we asked the respondent a single question: How convenient is your location for customers? We created our questions by translating and modifying the questions taken from the literature so that the general manager of a sales outlet can easily answer them (see Table 4). Questions were checked for accuracy and answerability by all of the paper authors and two practitioners with experience at Japanese automobile dealers.

Table 4: Questionnaire Independent Variables and Items

INDEPENDENT VARIABLE	SOURCE	ITEMS
Acquisition Capability	Nijissen et al. (2017)	• Generating attractive new sales leads • Making time for acquiring new customers
Retention Capability	Nijissen et al. (2017)	• Building customer relationships • Maintaining customer relationships • Closing sales with existing customers
Cooperation	Nijissen et al. (2017)	• Working effectively with other functions in the organization • Together delivering the right sales message to customers • Providing good support to salespeople
Customer Targeting	Guenzi et al. (2016)	• Segmenting customers. • Targeting customers in the right way. • Selecting the appropriate selling model for each customer.
Organizational Formalization	Hempel et al. (2012) Lin and Germain (2003) Khandawalla (1974)	How often are the following management practices used in your company: • A comprehensive management control and information system • Use of cost centers for cost control • Quality control of operation using sampling and other methods • Formal appraisal of personnel
Job Role Formalization	Hempel et al. (2012) Delery and Doty (1996)	How often are the following management practices used in your company: • The duties of jobs for team members are clearly defined • Team members' jobs have up-to-date job descriptions • Job descriptions contain all the duties performed by individual team members • Actual job duties are determined more by the team members' abilities than by a specific job description (reversed scored)

Sales performance was measured based on number of new vehicle sales from April to September 2021 multiplied by the estimated average sales price of vehicles sold for that brand (Table 5). We estimated the average sales price for Japanese domestic brands based on the average of the sales price of that brand's three highest performing vehicles (non-weighted average), as reported on the websites of Japan Automobile Dealers Association (JADA) and Japan Kei[5] Vehicles Association (Zenkeijikyo) on April 30, 2022. For foreign brands, we used the single top-selling vehicle's sales price for each brand as reported on the Japan Automobile Importers Association (JAIA) website on

April 30, 2022. We had to use only the single top-selling vehicle's sales price because the JAIA website only lists the top 20 selling imported vehicles in Japan. To maintain consistency with other luxury brands, for Lexus we also used the single top-selling vehicle's sales price.

As for control variables, we included location favourability measured by a five-point Likert scale in the questionnaire as described above. The questionnaire also included questions about how many years the sales outlet has been open, whether new vehicle salespersons also sell used cars or not, and the number of fulltime/parttime employees. We defined new showrooms as showrooms which were established in the past 20 years. Sales outlets were classified as urban or suburban/rural. Urban sales outlets are those located within the 23 Wards of Tokyo or within one of the five ordinance-designated cities surrounding Tokyo (Yokohama City, Kawasaki City, Saitama City, Chiba City, and Sagamihara City), where population density is particularly high and public transportation is well developed.

Table 5: Estimated Average Sales Price for Each Brand

Japanese Brands except Lexus

Brand	**Model**	**Price (JPY)**
Toyota	Yaris	2,324,000
	Roomy	1,556,000
	Alphard	3,597,000
	Toyota Ave.	**2,492,333**
Nissan	Note	2,030,000
	Serena	2,440,000
	Kicks	2,760,000
	Nissan Ave.	**2,410,000**
Honda	Freed	1,990,000
	Fit	1,558,000
	Stepwagon	2,715,000
	Honda Ave.	**2,087,667**
Mazda	Maxda2	1,798,000
	CX5	2,678,000
	CX30	2,392,500
	Mazda Ave.	**2,289,500**
Subaru	Levorg	3,102,000
	Impreza	2,002,000
	Forester	2,937,000
	Subaru Ave.	**2,680,333**
Mitsubishi	Delica D5	3,914,000
	Eclipse cross	2,531,000
	Mirage *	1,432,000
	Mitsubishi Ave.	**2,625,667**

http://www.jada.or.jp/data/month/m-brand-ranking/#

(Top models from Jan. 2021 to June 2021)

* Mitsubishi Mirage was not among the top 50

Author

Japanese Brands except Lexus (Table 5 continued)

Brand	**Model**	**Price (JPY)**
Suzuki	Spacia	1,395,000
	Hustler	1,365,000
	Alto	940,000
	Suzuki Ave.	**1,233,333**
Daihatsu	Tanto	1,243,000
	Move	1,135,000
	Mira	862,000
	Daihatsu Ave.	**1,080,000**

https://www.zenkeijikyo.or.jp/statistics/tushokaku/tushokaku-half-7066
(Top models from April 2021 to Sept. 2021)

Imported Brands and Lexus (Table 5 continued)

Brand	**Model**	**Price (JPY)**
Lexus	UX250H	4,329,000
BMW MINI	MINI	2,890,000
BMW	3 Series	5,100,000
Volvo	V60	5,140,000
Bentz	A	4,050,000
Audi	A3	3,470,000
Porsche	Macan *	7,540,000

https://www.jaia-jp.org/transition-files-japanese/Model_fyhalfyear.pdf
(Top models from April 2021 to Sept. 2021)
* Porsche Macan was not among the top 20.

4. Results

The survey results show a wide range in the sales performance by brand and segment as shown in Table 6. We used the Honda brand as the baseline value for analysing the segment dummy variables and brand dummy variables in the multi regression analysis indicated in Table 10.

Table 6: General Descriptive Results of Sales Outlets

(Segment and Brand Averages)

Segment/ Brand	Monthly Vehicle Sales per Sales Outlet Employee	Monthly Vehicle Sales per Salesperson	Options Value (JPY)	# of Fulltime Staff	# of Engineer Staff	# of New Vehicle Sales Staff	# of Partime Staff
Full-line Av.	**1.1**	**3.9**	**400,000**	**17**	**6.0**	**5.3**	**0.9**
Toyota	1.2	4	400,000	18	5.9	5.3	0.9
Honda	1.3	4.4	370,000	18	6.5	5.3	1.2
Nissan	0.8	2.7	460,000	17	5.8	5.3	0.8
Niche Av.	**0.9**	**3.2**	**390,000**	**17**	**5.3**	**5.0**	**0.6**
Mazda	0.9	3.3	310,000	16	6.4	5.9	0.6
Subaru	1.1	3.6	490,000	20	4.5	4.6	0.6
Mitsubishi	0.6	2.1	430,000	16	5.7	4.6	0.6
Micro Av.	**1.2**	**4.5**	**280,000**	**16**	**6.0**	**4.4**	**1.4**
Daihatsu	1.3	4.9	320,000	16	5.8	4.2	1.4
Suzuki	1.1	4.2	250,000	15	6.2	4.6	1.4
Luxury Av.	**0.7**	**2.9**	**1,140,000**	**24**	6.8	6.1	1.3
All Segments	1.1	3.8	460,000	18	6.0	5.3	1.0

Table 6 (continues)

Segment/ Brand	Sales to Corporate Customers	Outlet only sells new vehicles	Urban area sales outlet	Automaker has an equity stake in the sales outlet (dealer)	Sample size (# of sales outlets)
Full-line Av.	**18%**	**29%**	**20%**	**23%**	**326**
Toyota	20%	24%	15%	8%	193
Honda	11%	10%	27%	29%	79
Nissan	23%	76%	30%	65%	54
Niche Av.	**13%**	**29%**	**33%**	**67%**	**45**
Subaru	10%	71%	36%	57%	14
Mazda	14%	9%	36%	73%	22
Mitsubishi	14%	11%	22%	67%	9
Micro Av.	**13%**	**15%**	**15%**	**70%**	**54**
Suzuki	11%	31%	15%	62%	26
Daihatsu	15%	0%	14%	79%	28
Luxury Av.	**34%**	**11%**	**32%**	**14%**	**44**
All Segments	19%	26%	22%	32%	469

Table 7 shows the simple averages for the variables in the model for each segment and brand. We were struck by the consistency across brands and segments for job/role formalization. A similar level of consistency seems present in organizational formalization, except for the luxury segment. The high results for organizational formalization for the luxury brands may be due to their being the local subsidiaries or affiliates of overseas automakers. Even though Lexus is not technically an affiliate of an overseas automaker, its brand was first introduced in the U.S. in 1989. So, this may explain why its average for organizational formalization is in line with the other luxury brands and not Toyota. In addition, it is notable that less than 10% of the surveyed Toyota sales outlets belong to dealers that have capital ties with Toyota, which is much lower than other brands (Table 6). In contrast, more than half of the Nissan, niche and micro sales outlets are operated by dealers that have capital ties with the vehicle manufacturer. Capital ties between a dealer and a manufacturer facilitate cooperation between them,

including dispatching senior managers or retired executives from the manufacturer to work in high-level positions in a dealer, which is a practice commonly seen in Japan.

In addition, 121 sales outlets (26%) only sell new vehicles. It is common for Japanese sales outlets to sell both new vehicles and used vehicles.

Table 7: Simple Averages for Key Variables (by Segment and Brand)

		Acquisition Capability	Retention Capability	Cooperation	Customer Targeting	Organizational Formalization	Job Role Formalization	Sample Size
Full-line	**Full-line**	**3.29**	**4.24**	**3.94**	**3.66**	**3.69**	**2.93**	**326**
	Toyota	3.18	4.25	3.94	3.64	3.60	2.85	193
	Honda	3.35	4.15	3.82	3.57	3.76	2.94	79
	Nissan	3.56	4.33	4.07	3.89	3.89	3.20	54
Niche	**Niche**	**2.99**	**4.24**	**3.98**	**3.59**	**3.71**	**2.81**	**45**
	SUBARU	2.54	4.26	3.71	3.50	3.48	2.67	14
	Mazda	3.25	4.32	4.21	3.58	3.88	2.89	22
	Mitsubishi	3.06	4.00	3.84	3.78	3.67	2.85	9
Micro (*Kei*)	**Micro**	**3.06**	**3.98**	**3.81**	**3.22**	**3.61**	**2.84**	**54**
	Suzuki	3.08	3.74	3.59	2.97	3.49	2.87	26
	Daihatsu	3.05	4.19	4.01	3.44	3.71	2.81	28
Luxury	**Luxury**	**3.77**	**4.20**	**4.09**	**3.92**	**4.11**	**2.89**	**44**
	Benz	3.81	4.10	3.80	3.95	4.12	3.05	13
	Lexus	3.30	4.43	4.44	4.00	3.98	2.87	10
	Volvo	4.07	4.14	4.06	3.90	4.32	3.05	7
	Audi	3.90	4.20	4.12	4.00	4.10	2.87	5
	BMW	3.63	4.00	3.80	3.75	4.00	2.42	4
	MINI	4.33	4.11	4.40	3.78	4.33	2.78	3
	Porsche	4.00	4.33	4.30	3.83	4.00	2.50	2
All		**3.28**	**4.20**	**3.94**	**3.63**	**3.72**	**2.91**	**469**

Table 8 shows the means, standard deviations, and correlations of the independent variables. Customer targeting has moderately high positive correlation with acquisition capability and retention capability. Table 9 shows the Cronbach's alpha of the independent variables, which are generally in acceptable ranges, except for Job Role Formalization. We address the low value for Job Role Formalization in the discussion section of the paper, specifically endnote number 6.

Table 8: Means, standard deviations, and correlations of independent variables

Variable	*M*	*SD*	1	2	3	4	5
1. Acquisition capability	3.28	0.98					
2. Retention capability	4.13	0.62	.16**				
3. Cooperation	3.73	0.71	.17**	.35**			
4. Customer targeting	3.63	0.67	.38**	.41**	.30**		
5. Organizational formalization	3.72	0.73	.34**	.27**	.22**	.34**	
6. Job role formalization	2.91	0.63	.07	.02	-.01	.11*	.07

Note. M and SD are used to represent mean and standard deviation, respectively.
* indicates $p < .05$. ** indicates $p < .01$.

Table 9 : Cronbach's alpha of the independent variables

Variable	std. alpha
1. Acquisition capability	0.87
2. Retention capability	0.63
3. Cooperation	0.74
4. Customer targeting	0.55
5. Organizational formalization	0.77
6. Job role formalization	0.23

To test our hypotheses, we used R studio to perform hierarchical multiple regression analysis, with average monetary value of new vehicle sales per salesperson as the dependent variable. As show in Table 10, in Model 1, all control variables including location favourability, new showroom, number of full-time staff, number of part-time staff, also selling used cars, urban, brands and segments were entered. In Model 2, we added acquisition capability (H1), retention capability (H2), cooperation (H3), customer targeting (H4), organizational formalization (H5), and job role formalization (H6).

The results from this analysis are shown in Table 10. Acquisition capability had a negative significant effect on sales performance. This sign was opposite to our expectation that customer satisfaction would have a positive effect.

Contrary to our expectations, retention capability (H2), cooperation (H3), and customer targeting (H4) did not have any significant effects.

Mixed results were obtained for formalization. As expected, job role formalization (H6) had a significant negative effect on sales performance. However, contrary to our expectation, organizational formalization (H5) did not have a significant effect on sales performance.

The largely supportive results for H7 reveal that sales performance at the sales outlet tends to be different depending on the brand or segment.

The AIC of Model 2 is smaller than Model 1. This suggests that Model 2 is superior in terms of the model's fit to the data and its conciseness. However, the estimation results for the control variables do not differ largely between the two models.

Table 10: Regression results using estimated new vehicle sales per salesperson as the criterion

Predictor	*b*	*beta*	*beta* 95% CI [LL, UL]	Fit
Model 1 (Only Control Variables)				
(Intercept)	15.93**			
Location favorability	0.02	0.05	[-0.01, 0.12]	
New showroom	0.03	0.03	[-0.04, 0.10]	
Number of fulltime	0.04	0.08	[-0.08, 0.24]	
Number of parttime	0.01	0.03	[-0.13, 0.19]	
Also selling used cars	-0.09**	-0.11**	[-0.18, -0.03]	
Urban	0.05	0.05	[-0.02, 0.12]	
Toyota	0.08	0.09	[-0.01, 0.19]	
Nissan	-0.41**	-0.32***	[-0.41, -0.23]	
Mazda	-0.20**	-0.10**	[-0.18, -0.03]	
Subaru	-0.02	-0.01	[-0.08, 0.07]	
Mitsubishi	-0.45**	-0.15***	[-0.23, -0.08]	
Micro	-0.62**	-0.49***	[-0.58, -0.41]	
Luxury	0.27**	0.20***	[0.12, 0.28]	
				R^2 = .460
				AIC=215.8195
Model 2 (Control Variables and Independent Variables)				
(Intercept)	15.97**			
<Control variables>				
Location favorability	0.02	0.06	[-0.01, 0.13]	
New showroom	0.04	0.04	[-0.03, 0.11]	
Number of fulltime	0.04	0.08	[-0.08, 0.24]	
Number of parttime	0.01	0.03	[-0.13, 0.19]	
Also selling used cars	-0.10**	-0.12**	[-0.20, -0.04]	
Urban	0.05	0.05	[-0.02, 0.12]	
Toyota	0.06	0.07	[-0.02, 0.17]	
Nissan	-0.41**	-0.32***	[-0.41, -0.23]	
Mazda	-0.21**	-0.11**	[-0.19, -0.03]	
Subaru	-0.06	-0.03	[-0.10, 0.05]	
Mitsubishi	-0.47**	-0.16***	[-0.23, -0.09]	
Micro	-0.62**	-0.49***	[-0.58, -0.41]	
Luxury	0.26**	0.19***	[0.11, 0.28]	
<Independent variables>				
Acquisition capability	-0.04*	-0.10*	[-0.18, -0.02]	
Retention capability	-0.00	-0.00	[-0.08, 0.08]	
Cooperation	0.01	0.02	[-0.05, 0.10]	
Customer targeting	0.05	0.08	[-0.00, 0.16]	
Organizational formalization	0.00	0.01	[-0.07, 0.09]	
Job role formalization	-0.05*	-0.08*	[-0.14, -0.01]	
				R^2 = .476
				ΔR^2 = .016*
				AIC=213.9822

Note: *b* indicates regression coefficients. *beta* indicates the standardized regression coefficients. *LL* and *UL* indicate the lower and upper limits of a confidence interval, respectively. * indicates $p < .05$. ** indicates $p < .01$

5. Discussion

Among the control variables, an unexpected result was found for location favourability, which has the correct sign but is not significant. The lack of significance may be due to this variable having been measured by only one survey item. We are presently attempting to supplement this survey data with average land values for the city in which the sales outlet is located. As expected, the negative effect of "also selling used cars" is significant at the 1% level. When salespeople also sell used cars, it seems natural for them to spend less time and effort selling new vehicles.

Acquisition capability (H1) had a significant effect on sales performance, but its sign was opposite to our expectations. While this negative effect was unexpected, it is not completely outside of existing theory. Nijissen et al. (2017) describe the complex interactions that can occur between efforts to acquire new customers and efforts to retain existing customers. In other words, it is important for managers to achieve the right balance between acquisition capability and retention capability. When the balance is off, a negative spiral can occur that could cause higher acquisition to have a negative effect on sales performance. For example, those sales outlets that are unsuccessful in getting their existing customers to replace vehicles at their sales outlets may be the ones that are putting extra efforts into acquiring new customers. Loyalty of salespeople to existing customers over new customers may also cause this negative effect. Going forward we will investigate the interplay between these two variables in our data set.

Contrary to our expectations, neither retention capability (H2) nor cooperation (H3) had any significant effects. We interpret this finding as being due to our model only having analysed the effects on new vehicle sales performance. Interviews conducted for Kida (2018) suggested that both cross-functional cooperation capability and retention capability are important in after-sales service. So, these two variables may mainly have an effect on service performance rather than new vehicle sales.

Customer targeting (H4) did not have a significant effect. Recently, most of the salespeople in Japanese new vehicle sales outlets seldom visit people's home to sell cars, which used to be more common. Generally, automakers, and dealers advertise on TV, through newspapers flyers, and over the Internet. Salespeople often wait for customers to come into the showroom. In addition, automakers develop a variety of models so that dealers can sell vehicles for men and women of all ages. Focusing on a specific target at a sales outlet may be difficult in the current situation. In other words, Japanese new vehicle sales outlets may have managed to maintain minimum sales volume by selling vehicles to customers in various demographic segments.

As expected, job role formalization (H6) had a significant negative effect on sales performance. Past research shows that job role formalization decreases flexibility and has a negative effect on team empowerment, which in turn reduces sales performance. The managerial implication of this finding is that managers at new vehicle sales outlets should be careful to leave room for sales and service personnel to act on their own discretion in conducting their jobs and utilizing their abilities.[6]

Contrary to our expectation, organizational formalization (H5) did not have a significant effect on sales performance. Past research found organizational formalization has a positive effect on team empowerment (Hempel et al., 2012), which in turn improves sales performance (Ahearne et al., 2005). Thus, organizational formalization was understood to have an indirect effect on sales performance. In this research we were not able to include a psychological empowerment variable in the model, because we distributed our questionnaire to the general manager of a sales outlet, not to salespeople themselves. This may explain why we found no significant effect of organizational formalization on sales performance.

Author

The largely supportive results for H7 reveal that sales performance at the sales outlet tends to be different depending on the brand or segment. In the first part of our analysis, Mazda, Subaru and Mitsubishi were combined into the niche segment. However, following comments we have received from informants in vehicle sales outlets who have mentioned that the market positionings of these brands are rather different, we separated out these three brands in the regression analysis. Micro (*kei*) brands and luxury brands were kept combined as segments due to their more similar market positions and because of the limited sample size of each brand. The Nissan, Mazda, and Mitsubishi brands exhibit significantly lower performance vis-à-vis the baseline Honda brand performance. Since the Nissan, Mazda and Mitsubishi average sales prices are higher than Honda, their negative performance can be traced to their lower unit sales. The micro (*kei*) segment's lower performance vis-à-vis Honda would seems to be because the average sales price of this segment is much lower than Honda, although the unit sales level is similar. The luxury segment's better performance vis-à-vis Honda would appear to be because the average sales price is much higher than Honda, more than making up for the low unit sales level. Toyota's result is positive, which suggest its performance is better than the baseline Honda performance. However, since Toyota's result is not significant, this apparent performance difference needs to be confirmed before it can be accepted.

6. Conclusion

In conclusion, this paper contains three major findings. First, the overall sales performance of Japanese new vehicle sales outlets in Tokyo and surrounding areas appears to be unsustainably low, suggesting there will be ongoing consolidation even after a post-pandemic recovery. Second, the paper provides empirical evidence that there are significant differences in sales outlet sales performance across vehicle brands and segments. Third, sales outlet sales capability and management practice have non-negligible effects on sales outlet sales performance. Especially, the negative effect of job role formalization suggests the importance of flexibility in sales outlet management and the skill development of salespeople. Overall, the paper's findings support the assertion that new vehicle sales outlets and salespeople play an important value-adding role in the automobile value chain.

Of course, our research has numerous limitations. First, our data collection has several problems. We use a single question in our questionnaire for location favourability. Location may need to be measured by more objective data such as average land values for the city in which the sales outlet is located. Our measurement of job role formalization has some issues as described in the sixth endnote. Second, the interplay between acquisition capability and retention capability should be analysed. Third, we used multiple regression analysis. However, customer targeting, and cooperation might be better measured as antecedent factors of acquisition capability and retention capability. Utilizing a method such as path analysis or structural equation modelling might be useful to explore this possibility. Fourth, while service performance is an important metric for evaluating sales outlet performance and the questionnaire did measure the number of service jobs performed in the past six months, we have not yet been able to incorporate this metric into our analysis. Fifth, we could not gather data on the sales of used cars. So, we leave them to be investigated going forward. Finally, we could not analyse the effect of human resource management variables such as the effect of compensation methods and promotion policies, because the unit of analysis in our study is the sales outlet. Nevertheless, our research clearly depicted the severe market situation faced by new vehicle dealers and sales outlets in Japan.

For future research, discovering the role played by star salespeople in new vehicle sales outlets is an interesting topic. In addition, after-sales service performance, customer satisfaction and employee satisfaction should be introduced as other important dependent variables in measuring the overall performance of dealers and sales outlets. For these research topics, a questionnaire distributed to salespeople and customers and interviews made directly to salespeople and customers is required.

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Notes

[1] Japanese new vehicle dealers and sales outlets have several unique characteristics. We use the word dealer to refer to a company that operate one or more sales points. A sales outlet (or sales point) refers to a single new vehicle showroom.

In general, Japanese automakers and their new vehicle dealers in Japan work closely together on multiple levels, such as product planning to brand management. In principle, a dealer handles one only one vehicle brand. There are, however, a few exceptions, such as, the same sales company operating a Lexus and a Toyota sales outlet, or the same company operating a BMW and a MINI sales outlet.

It is not uncommon for a Japanese automaker to hold an equity stake in a new vehicle dealer in Japan. The extent to which such capital relationships are common varies by automaker (see Table 6). Furthermore, there is a "*shukou*" (secondment) custom in Japan where employees of a manufacturer like an automaker are temporarily assigned to an affiliated company like an automobile sales company to support its management. *Shukou* has the function of building personal relationships and sharing information, and complements another common custom of sending retired upper managers to such affiliates.

Vehicle sales outlets in Japan generally have service facilities for inspection and repair. It is not uncommon for revenue for such after-sales service to be more than the revenue from new vehicle sales. After-sales service has long been an important source of profitability for new vehicle sales outlets in Japan and this importance seems to be increasing even more in recent years.

In addition, in urban areas the sales outlets of different sales companies selling the same brand can be found nearby in the same neighbourhood, where customers get quotes for the same vehicle from multiple sales outlets in order to maximize price discounts. Such cases are generally a legacy of the boom years in Japan (through the early 1990s) when sales volume was growing rapidly and the expectation of furth growth was high. Such discounting is somewhat limited due to sales outlets generally not having any new vehicle inventory. Depending on the model, customers generally have to wait for delivery of a new vehicle for a few weeks or more. Exceptions are a relatively small number of unused-but-once-registered vehicles, which are vehicles that dealers may have ordered to achieve sales targets or vehicles that were ordered by customers but later cancelled.

[2] "Monthly Vehicle Sales per Sales Outlet Employee" stands for the unit sales divided by the number of all kinds of employee in sales outlets, including service employee, part-time employees, and others. We counted each part-time employee as a fraction of one full-time employee (40-hour work week) based on the average weekly working hours for that part-time employee.

[3] Kida (2020) conducted a longitudinal case study of a dealer that has around 30 dealers mainly in urban settings. He obtained employee satisfaction (ES) and customer satisfaction (CS) data from three years for all of the showrooms. He sorted the showroom into four categories depending on whether ES and CS were high or low. From each of these categories he selected, in consultation with the dealer, one representative showroom for detailed interviews. He spoke with the general manager and staff at each showroom. This research suggested that leadership at the dealers and cross-functional coordination (i.e., cooperation between the sales and service departments at a dealer) play an important role in achieving both ES and CS.

[4] We sent second reminders to niche dealers and luxury dealers one week after the first reminder to gather enough responses for analysis, because the total number of niche dealers and luxury dealers is limited.

[5] *Kei* (micro) vehicles are a special category of light motor vehicles in Japan that receive favourable tax and other benefits. *Kei* vehicles must not exceed 3.40 meters in length, 1.48 meters in width, 2.00 meters in height, and 660cc in engine displacement.

[6] As was shown in Table 9, the Cronbach's alpha for job role formalization after the three items were combined was 0.23. This is generally considered to be a low value for Cronbach's alpha and is one of the limitations of this study. However, Cronbach's alpha has been the subject of various criticism as an indicator of the internal alignment synthesis of items for a combined variable, with the argument being that it alone cannot indicate the reliability of the scale (e.g., Sijtsma, 2009a, 2009b). Moreover, when each item was fed into the regression equation, the effects observed when the items were combined disappeared. In fact, a negative effect on sales performance was observed when the three items were combined.

Job role formalization as a variable is the extent of the usage of explicit rules, policies, and procedures about a job role within the team. Job role formalization, as its name explains, seems to contain both formalization of role and formalization of job. Question 3-1 captures role formalization, while question 3-2 and 3-3 captures job formalization (Question details can be seen by accessing the questionnaire [in Japanese] that was distributed to the new vehicle sales outlets, on the following website: https://drive.google.com/file/d/11WuW4x8cUC9w7Q28lnVQncRA_RLxFBGJ/view?usp=sharing or https://researchmap.jp/kidasekai). Although low reliability of this variable is an issue in this study and a limitation, we decided to use the combined items for this variable because we judged them to be useful in capturing the overall aspects of job role formalization.