



## LIFECYCLE OF ENTERPRISES – A CASE STUDY OF CAR DEALERSHIPS IN HUNGARY

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**Abstract:** The passenger car market was among of the most successful sectors in Hungary after the political transition until the crisis started in 2008, and it became one of the biggest losers of the crisis in Hungary. The main objective of the article is to present the Hungarian passenger car market and describe the lifecycle of car dealerships of different brands in Hungary. In the present publication, their lifecycles are examined based on two single-brand car dealers in Hungary. For the analysis, the Adizes organizational lifecycle model was used, as this is one of the most comprehensive models that discusses the organizational changes and follows the company's history according to its milestones. The research was conducted based on in-depth interviews with the managers of the dealerships. This paper focuses on two selected car brands: Suzuki, which represents a lower price category and Volkswagen which represents a higher prestige of car brands. The first results showed that the lifecycle stages of the dealers in the passenger car market have very distinct stages with special features, and revealed the main differences between dealerships selling different price categories of cars.

**Keywords:** car dealerships, car sales, economic crisis, organizational lifecycle model

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### Introduction

The automotive industry plays an important role all over the world due to its significant importance in transportation and everyday life. The passenger car market is a very important market in most developed countries. In this area, Hungary is not among the best markets in Europe, which is shown by some statistical data. In 2018, the EU average was 573 vehicles per 1,000 inhabitants and this number in Hungary is only 377 (in Poland: 628, in the Czech Republic: 559 and in Slovakia: 438). The number of new passenger car registrations in Hungary was only 10 per 1000 inhabitants in 2016, compared to the EU average of 29, and the Visegrad countries (Czech Republic: 25, Slovakia: 16, Poland: 11).

In Hungary, the development of the automotive sector and the car trade started at the beginning of the 1990s, the tendency of growth was stable and the development of the sector was very fast due to changes in consumers' needs and the very favourable credit constructions. The basic goal of our research was to explore and analyse

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the background of the car dealership industry and the lifecycle of Hungarian car trading enterprises from their beginnings until the present, describing the differences and similarities of different car brands and types of car dealerships. Based on the results of in-depth interviews with the owners and managers of car dealerships, we described the main stages of the lifecycle of these companies with a special focus on single-brand car dealerships working in Hungary.

## **Research background and methodology**

To conduct the literature review, we focused on literature sources from Central and Eastern European countries as these countries have a very similar economic, social and historical background. During the desk survey stage, the keywords and phrases of “car dealership”, “passenger car” “automotive sector of CEE countries” were used to search in international literature databases and libraries. The literature review had a triple objective: firstly, to describe the economic and social background of the automotive sector and car dealership industry in Hungary, secondly, to give insight into the used methodology of professor Ichak Adizes, and thirdly, to describe the methodology of the research.

## **Car dealerships in Hungary**

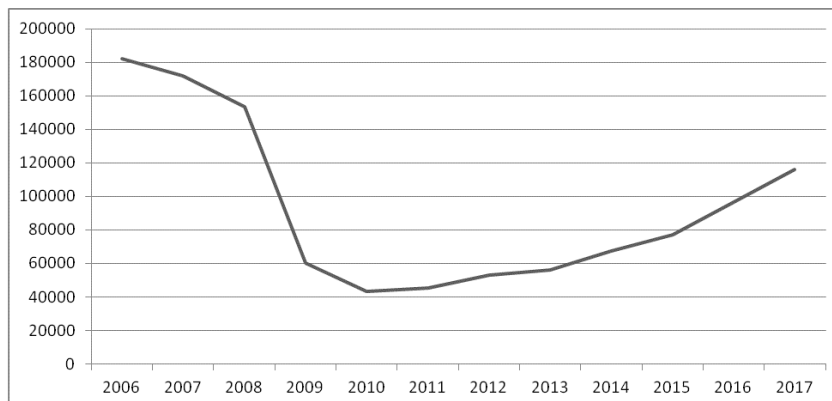
The development of the Hungarian automotive sector – both car production and car trade – started after the political and economic transitions at the beginning of the 1990s. Suzuki, Opel and Audi settled down in Hungary and started production (Humphrey, Memedovic 2003; Kemenczei 2010). In 2012, Mercedes also started its production in Kecskemét. Foreign direct investments played an important role in the development of the automotive sector in all Central European countries (Radosevic, Rozeik 2005; Jakubiak et al. 2008; Pavlínek, Zenka 2011). International car manufacturers established their research and development centres near the new car manufacturing plants (Szendi 2016). Parallel to the car manufacturers, the big car brands also settled down in the country during the 1990s. Most of the representatives of the different car brands had previous experience in the automotive sector as many new car dealership owners worked as car mechanics, therefore they had a good professional background and professional relations.

The number of new passenger car registrations showed an intensive increasing tendency in the 2000s due to good credit constructions and marketing campaigns (Demeter, Gelei, Jenei 2006). The size of the domestic passenger car fleet reached 3 million in 2009 (Pásztor 2011), but the economic crisis reached Hungary as well and the car market collapsed.

Based on the data of GÉMOSZ (the Hungarian Association of Automobile Dealers) in the middle of the 2000s, before the outbreak of the crisis, 1100 car showrooms dealt with the trading of new cars, the number of their employees was 30-35 thousand but a radical decrease occurred after the crisis of 2008. In 2011, the number of car showrooms was only 722 with 329 owners. The biggest loser of this process was Suzuki, which had the highest number of sales and the most showrooms: from

the 160 Suzuki showrooms, only 50 survived and still were working in 2011. The crisis induced the same impacts in the neighbouring countries as well (Winter 2010; Van Biesebroeck, Sturgeon 2010; Fortwengel 2011).

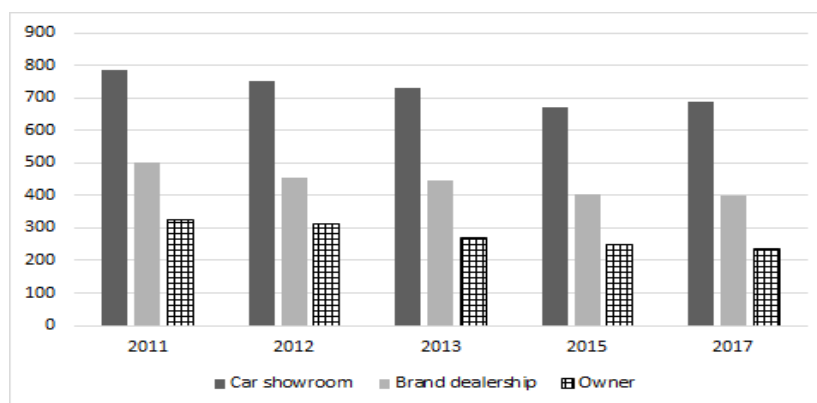
The decline in new car registrations is shown in *Figure 1*, where slight, but stable development can be detected in the past few years, which indicates a promising and more stable future of the sector (Datahouse unpublished data 2017).



**Figure 1. Number of new car registrations (2006-2016)**

Source: Authors' own work based on Datahouse data (unpublished)

Based on their yearly survey, the Hungarian Association of Automobile Dealers (GÉMOSZ) compiled a comprehensive database of about 35 brands which are present on the Hungarian market. The number of car showrooms, brand dealerships and the number of the owners seems to have stabilized after the crisis. In 2017, the Hungarian market was represented by 688 car showrooms (showrooms sell only one brand) 399 car dealerships (brand-oriented enterprises where one or more brands are sold at one or more locations) and the industry is concentrated in the hands of 234 owners (*Figure 2*).



**Figure 2. Automobile trade system in Hungary (2011-2017)**

Source: Authors' own work based on (GÉMOSZ 2017)

The number of owners shows a moderate, but declining trend, whose reasons are related to the closure of unprofitable single-brand dealerships, the retirement of the owners and/or selling the enterprise. From the 234 owners, 119 deals with only one brand (51%), 57 with two brands (24%), 25 with three brands (11%), 16 with four brands (7%), 7 owners (3%) with five brands, 4 owners with six brands, 2 owners with eight brands and 1 owner each deals with 7, 9, 13 and 14 brands. The share of two-brand dealerships is located in the central region of Hungary, mostly in the capital, Budapest, due to the strategies of the huge manufacturer groups (e.g. Nissan-Renault-Dacia, VW-Audi-Seat, Peugeot-Citroen-Ds), which concentrate their marketing locations in big cities.

The top 15 car brands in Hungary are the following: Suzuki, with a 13% market share, Ford (nearly 10%), Skoda (9%), Opel (8.8%), and Volkswagen with a 7.3% market share. The German premium brands (Mercedes, Audi and BMW) show a market share between 2-3%, Hungarian customers prefer Toyota, Dacia, Renault, Kia, Nissan and Hyundai, which are ahead of German cars (GÉMOSZ 2017). The rank and market share of the top 15 car brands in Hungary (based on new car sales) is summarized in *Table 1*.

**Table 1. Rank and market share of car brands in Hungary in 2016 and 2017**

Rank	Brand	Number of sales in 2017	Market share	Number of sales in 2016	Market share
1.	Suzuki	15 161	13.04%	11 266	11.66%
2.	Ford	11 372	9.78%	9 522	9.86%
3.	Skoda	10 523	9.05%	8 755	9.06%
4.	Opel	10 189	8.76%	9 379	9.71%
5.	Volkswagen	8 546	7.35%	7 534	7.80%
6.	Toyota	8 139	7.00%	5 517	5.71%
7.	Dacia	7 329	6.30%	5 120	5.30%
8.	Renault	5 686	4.89%	4 896	5.07%
9.	Kia	4 507	3.88%	3 920	4.06%
10.	Nissan	4 257	3.66%	3 400	3.52%
11.	Hyundai	3 739	3.22%	3 174	3.29%
12.	Mercedes-Benz	3 733	3.21%	2 751	2.85%
13.	Fiat	3 221	2.77%	3 039	3.15%
14.	Audi	2 773	2.39%	2 502	2.59%
15.	BMW	2 698	2.32%	2 388	2.47%

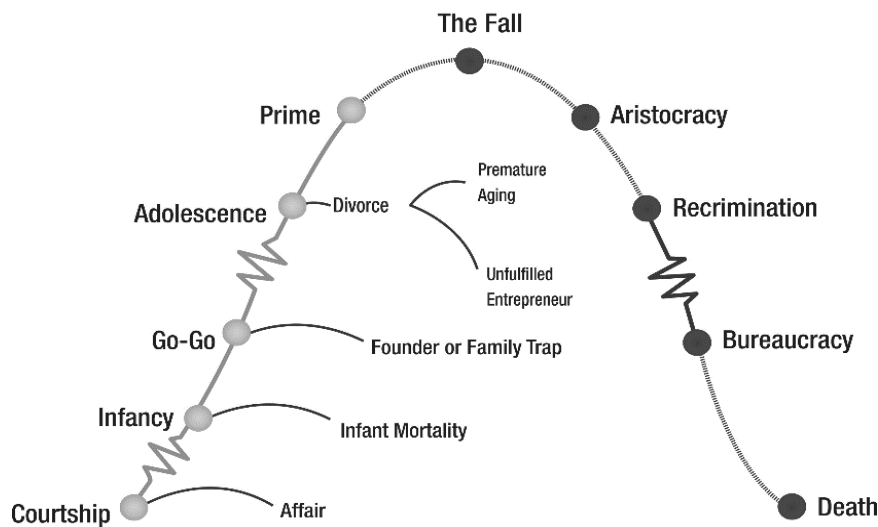
Source: Authors' summary based on ([https://www.autonavigator.hu/...](https://www.autonavigator.hu/))

As is seen, Suzuki is the most popular in Hungary in the rank of different brands, its development shows a continuously increasing trend and it has a great preference. The second most popular brand was Ford with an approximately 10% market share. Skoda is in third place and Opel is fourth, although it was the leading brand in 2015. The fifth is Volkswagen with an increase in sales by 13% when compared to 2016's

results. Toyota exhibited a huge increase (by almost 50%) and Dacia sales were also very remarkable (by 40%) between 2016 and 2017. The German premium brands could not attain such significant changes in sales, Mercedes shows the strongest position; Audi and BMW obtained weaker results. The main reasons for this situation are caused by consumers' preferences (price sensitivity) and the present economic conditions in Hungary. Both individual customers and organizations with car fleets prefer cheaper and lower positioned, but well-known brands (Suzuki, Skoda, Opel, Volkswagen or Ford), and the highly positioned car brands are bought by some individual buyers and company top managers, not only because of the sales price but also because of higher maintenance costs.

### Adizes corporate lifecycle model

To analyse the lifecycle of the market players in the automobile trade sector in Hungary, we applied the Adizes corporate lifecycle model, which describes the different stages of corporate life. All organisations have a lifecycle and they undergo predictable stages as they grow and develop (Adizes 2004). Lifecycle models show the life stages of enterprises and organisations as a sequence of different stages. These models determine the general features of the different stages, and also summarise the different operational and managing problems of each stage (Illés, Hurta, Dunay 2015). The Adizes model describes the developing and declining stages of organizations. The model is displayed in *Figure 3*.



**Figure 3. Adizes corporate lifecycle model**

Source: ([http://adizes.com/...](http://adizes.com/))

The developing stages of enterprises are similar to the life of living organisms, i.e. they refer to and show similarities to the life of human beings. The courtship stage is the period prior to establishing the enterprise, where the idea is generated

and the preliminary steps are made. The infancy stage is the “new-born” life of companies, where a constant flow of money and continuous care is needed. The go-go stage is the early childhood of companies, when they undertake different challenges to find their stability. Adolescence is the teen age of enterprises, when the owners should share the responsibility with selected employees who are experienced enough, in order to become increasingly more stable. The target age is the prime stage when companies are successful adults, and this stage is the optimum, where they should stay for a long period (Adizes 2004). The managers’ roles and tasks continuously change throughout these stages (Bahrami, Nosratabadi, Illés 2016) as well as their strategic approach (Nosratabadi, Illés 2016).

## Research methods

In the first stage of our research we conducted in-depth interviews to explore and analyse the lifecycle stages of Hungarian car dealerships. At first, we differentiated the car dealers according to the number of their brands: single-brand and multi-brand dealership groups. The second grouping was done according to the number of locations. In this paper, we focus on single-brand dealerships with one sales location. This classification was needed to conduct a comparative analysis, as the lifecycle of enterprises may be compared to each other only if their organization, size and background are similar. Two brands were discussed in this part of the research, one with a higher and one with a lower prestige and price range.

After preliminary e-mails and telephone discussions, appointments were made with the managers for the date and place of interviews. As can be seen in *Table 2*, we conducted personal in-depth interviews with 6 owners of Suzuki brand dealerships and 5 owners of Volkswagen brand dealerships. This represents 20% of Suzuki single-brand locations (31 in total) and 100% of the Volkswagen single-brand locations (5 in total). Of course there are more dealerships in the country, but this paper focuses only on single-brand and single-location enterprises. Unfortunately, the response rate was very low; the attitude to communication was different in the case of the different brands, even during personal discussions. The number and categories of the car dealerships discussed in this paper is presented in *Table 2*.

**Table 2. Number of car dealership categories of two examined brands in Hungary**

	<b>Single-brand 1 location</b>	<b>Single-brand more locations</b>	<b>Multi-bran 1 location</b>	<b>Multi-brand more locations</b>	<b>Total</b>
Suzuki	6* / 31	17 (7 owners)	4	22	74
Volkswagen	5* / 5	0	11	14	30

\* Dealerships where interviews were conducted

Source: Authors’ summary based on GÉMOSZ unpublished data

The questions of the in-depth interviews covered the following topics (each question was based on the characteristics of the different lifecycle stages of the Adizes model):

- Sources of the idea and opportunity, objectives of the owner by establishing the company.
- Tasks and work in the first period, problems and challenges faced, solutions.
- Tasks and methods in the growth period, problems, challenges and solutions.
- Formalization questions, hierarchy development and structure of the company.
- Impacts of the manufacturers and importers on the managerial decisions and management of the company.
- Impacts of the economic crisis on the company, steps in crisis management.
- Present situation, future goals, tasks and challenges.

## Results

There are many common features of the car dealerships which started their work and business life in the 1990s. Selecting the location of the enterprises followed a similar pattern; the new dealerships were established at the edge of settlements, they were frequently built next to each other on the side of main roads at the boundary of settlements. Dealerships were established in the inner areas only in a few cases where the owners had their existing car repair shops that were broadened by the new sales activities. The owners of the dealerships (with one exception) had already worked in the automotive sector as car mechanics, therefore their professional background made a proper base and strength to start the enterprise. Moreover, in the 1990s, the high interest of car manufacturers and importers in the Hungarian market was able to build the first steps for cooperation as the big manufacturers wanted to build a new trade system in post socialist countries, which changed to a market economy after the socialist planning system. Therefore, *Courtship*, the first stage of the lifecycle of these enterprises was similar in all the examined companies, as the idea and the opportunity was at the beginning of the 1990s and the former car service provider entrepreneurs started their new role as car dealers.

The most important barrier to establishing a new enterprise is the high capital requirement. In the case of new car dealerships, the besides the building of showrooms and repair shops, a modern, attractive site was created. The main financing sources were bank loans, special development loan constructions, and sometimes the chosen brand also provided some support for new members of the brand's trade network. After founding the enterprise, the new companies entered the next stage, *Infancy*. The main problem of the *Infancy* stage is the lack of capital and cash-flow problems. This problem could be detected in all the companies. The entrepreneurs needed a high level of investments and a large amount of money to establish showrooms and brand services. To finance the investments at the location, the entrepreneurs used development loans and other credit constructions. Because of the intensive interest of the customers, the car dealerships easily reached the first step of success: the realization of their idea. The main goal of starting the business was to gain financial resources for their and their families' living.

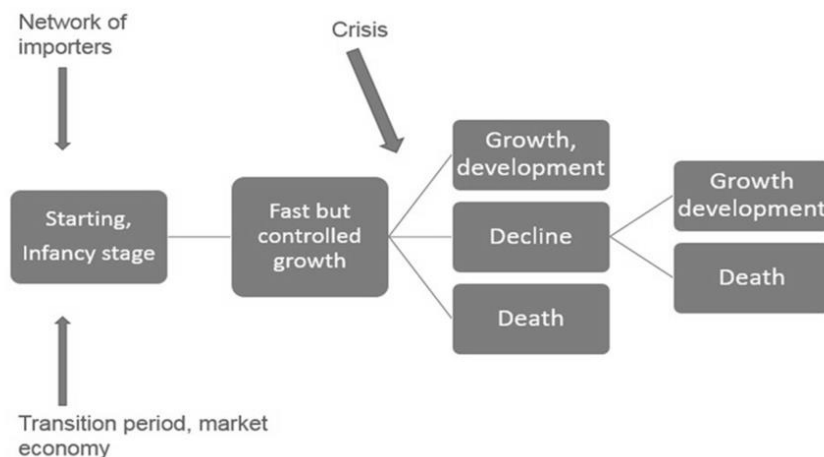
In the *Infancy* stage the number of new cars sold increased dynamically and the group of consumers grew because of the former professional and consumer network

of the entrepreneurs. The greatest challenge for them was to find the proper brand, and some of the entrepreneurs started trading more brands in the first years. The other general problem was the problem of financial liquidity.

A special feature of car dealerships is that they started formalizing the company in the infancy stage, as the functional fields (i.e. trade and service provision) in this industry are basically separate. The management was led by the owner, and only a small amount of responsibility was given to employees.

After the first year the companies started to expand and increase the number of sales. A higher speed of growth means that the enterprise enters the next stage, the *Go-go* stage, whose main features are a high speed of growth and, improved self-confidence. The most serious problem of this stage is that the management with all the tasks is handled by one person, the owner himself. Extra challenges occurred for the car dealerships at the beginning of the 2000s: the dramatic increase in sales drove the companies into a chaotic situation, which became a key problem in each of the examined companies. This stage can be summarized as having fast but controlled growth, stopped by the outbreak of the crisis of 2008, which appeared in Hungary as well, and the whole car trade industry collapsed because of this threat coming from the external environment. The number of sales decreased dramatically, the showrooms were closed and the enterprises had to find a new market for themselves, e.g. providing service as a path for survival.

Nowadays signs of a slight increase can be seen, and the companies may follow their development path under normal circumstances. New challenges that they have to face are the lack of experienced employees, lack of professional education, but the owners are very optimistic about the future.



**Figure 4. Corporate lifecycle of Hungarian car dealerships**

Source: Author's own research results

As it is seen in *Figure 4*, there are not such clear stages of growth, the Courtship and Infancy stages were very short, and almost merged in many cases due to the previous experience of the owners as car mechanics and their existing repair shop



sites. The Go-go stage merged with Adolescence as a fast but controlled growth stage. This growth was generated by the high consumer demand and the artificially generated growth of demand by providing very favourable credit constructions for consumers.

The crisis brought about a huge collapse of the whole sector; because of the decline many enterprises died, i.e. they were closed. Of course there were survivors as well, who started to reconstruct and stabilize their activities and implemented new strategic actions in the changed environment. For their survival, new sources for the idea and opportunity were established and new objectives were brought by the owner to establish new pillars for their business: they entered new markets and implemented new activities. For this, a new managerial attitude was needed to build an organizational hierarchy, to apply a new more entrepreneurial, more creative managerial style.

## **Conclusions**

The results of our research highlighted the fact that the lifecycle of car dealerships have many similarities because they work under more formalized market conditions, where the characteristics and the opportunities are strongly determined and influenced by car manufacturers or importers.

During the in-depth interviews, very visible differences were detected between the two discussed brands. Suzuki represents a cheaper price and a lower category of cars, which is available for a vast number of consumers, while Volkswagen is in a higher price category and represents a higher prestige; this brand is for consumers with greater needs and more money to spend. In the case of Volkswagen, (and – according to our wider research results – it is true for other brands with high prestige), not only professional investors but also financial investors appeared, as the brands with higher prestige required more invested money.

There were differences in ownership as well: the brands with a lower prestige mostly remained family businesses, while the brands with higher prestige have more (even 10) owners. The number of employees is higher in the case of brands with a higher prestige, for example in the case of Suzuki dealerships, the number of employees was 10-20, while in case of single-brand VW dealerships with one location, the number of employees was 30-50.

Another significant difference could be detected in the case of image: in the case of brands with higher prestige, the requirements of the importers and producers were higher related to the brand image, website, and showroom facilities. Another important difference is the existence of a quality assurance system: it is compulsory at VW dealerships, while it is not at Suzuki.

These features suggest that the lifecycle of enterprises dealing with different brands may follow different directions in the future.

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## CYKL ŻYCIA PRZEDSIĘBIORSTW – STUDIUM PRZYPADKU DEALERÓW SAMOCHODOWYCH NA WĘGRZECH

**Streszczenie:** Po transformacji politycznej rynek samochodów osobowych był jednym z lepiej prosperujących sektorów, aż do załamania, które miało miejsce w 2008 roku, kiedy to stał się jednym z największych przegranych kryzysu na Węgrzech. Głównym celem naszych badań jest przedstawienie węgierskiego rynku samochodów osobowych i opisanie cyklu życia przedsiębiorstw – dealerów samochodów różnych marek. W niniejszej publikacji zbadano ich cykle życia na przykładzie dwóch przedsiębiorstw dealerskich działających na Węgrzech. Do analizy wykorzystano organizacyjny model cyklu życia Itchaka Adizesa, ponieważ jest to jeden z najbardziej kompleksowych modeli, który omawia zmiany organizacyjne i śledzi historię firmy według jej kluczowych etapów. Badania zostały przeprowadzone w oparciu o pogłębione wywiady z menedżerami salonów samochodów osobowych. W artykule skoncentrowano się na dwóch wybranych markach: Suzuki, które reprezentuje niższą kategorię cenową, oraz Volkswagen, który reprezentuje bardziej prestiżowe marki. Pierwsze wyniki wykazały, że w cyklu życia dealerów samochodów osobowych można wyróżnić wyraźne etapy z charakterystycznymi cechami, oraz ujawniły główne różnice między dealerami handlującymi samochodami z różnych przedziałów cenowych.

**Słowa kluczowe:** kryzys gospodarczy, model cyklu życia organizacji, salony samochodowe, sprzedaż samochodów