

5 Distribution arrangements for new cars and the franchised dealer system

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National sales companies

5.1. Some car manufacturers sell their products through marketing divisions, some set up subsidiaries for the purpose, others appoint independent companies. These divisions or companies are referred to in the industry as national sales companies, but not all of them are 'suppliers', ie manufacturers or importers of new cars.

5.2. For all United Kingdom car manufacturers, except-until 31 December 1991-NMUK, the national sales companies are divisions or subsidiaries of the manufacturers. The national sales companies distributing imported cars in the United Kingdom are either subsidiaries of the manufacturers or independent companies which have been given the sole rights to import the manufacturers' cars for resale. These latter companies are often known as 'concessionaires', but they are referred to as 'suppliers' in this report. Table 5.1 shows the top 23 national sales companies, the marques for which they are responsible, and whether they are subsidiaries or divisions of the manufacturers or are independent.

TABLE 5.1 National sales companies for United Kingdom leading car marques, 1990

<i>Marque</i>	<i>National sales company</i>	<i>Subsidiary or division of manufacturer</i>	<i>Independent</i>
Ford	Ford Motor Company Ltd	✓	
Vauxhall	Vauxhall Motors Ltd	✓	
Rover	Rover Group Ltd	✓	
Peugeot	Peugeot Talbot Motor Co Ltd	✓	
Nissan*	Nissan UK Ltd		✓
Audi/Volkswagen	VAG (UK) Ltd		✓
Renault	Renault (UK) Ltd	✓	
Volvo	Volvo Concessionaires Ltd		✓
Fiat	Fiat Auto (UK) Ltd	✓	
Citroën	Citroën (UK) Ltd	✓	
BMW	BMW (GB) Ltd	✓	
Toyota	Toyota (GB) Ltd		✓
Mercedes-Benz	Mercedes-Benz (United Kingdom) Ltd	✓	
Lada	Motor Vehicle Imports Ltd		✓
Honda	Honda Motor Europe Ltd	✓	
Mazda	Mazda Cars (UK) Ltd		✓
Skoda	Skoda (Great Britain) Ltd	✓	
Saab	Saab Great Britain Ltd	✓	
Mitsubishi	The Colt Car Co Ltd		✓
SEAT	SEAT Concessionaires (UK) Ltd	✓	
Hyundai	Hyundai Car Distributors (UK) Ltd		✓
Yugo	Zastava (GB) Ltd		✓
Proton	Proton Cars (UK) Ltd		✓

Source: MMC from industry information.

*The contract between Nissan UK and Nissan Motor Company Ltd (Nissan Motor) will terminate on 31 December 1991.

5.3. The national sales companies carry out all the usual functions of a marketing company: undertaking market research, developing sales and service strategies, recommending product innovation and modification, conducting national promotion and advertising campaigns, setting list and wholesale prices, establishing and maintaining the sales and distribution network, setting and monitoring sales targets and service levels, arranging deliveries of cars and ensuring that dealers keep adequate stocks.

5.4. National sales companies (with the exception of Nissan UK through its subsidiary Nissan AFG) generally do not sell cars to the public at large.¹ They act primarily as wholesalers selling to a network of selected dealers although they do sell direct to certain categories of customers (see paragraphs 5.29 to 5.31).

Dealer networks

General

5.5. New cars are distributed and sold in the United Kingdom chiefly through networks of dealers who have been selected by suppliers as being suitable for retailing and providing after-sales support for their particular marques. Dealers are not agents of the suppliers but are independent businesses trading in their own right.

5.6. A dealer's suitability for appointment as a new car retailer is determined by the supplier after consideration of a number of factors, the first of which is whether there is an appropriate 'open point'² in the supplier's dealer network. Other important considerations are the location, size and quality of the premises available for the dealership; the experience of the dealer, his record in the motor trade, his local

¹ Although the parent companies of Volvo Concessionaires Ltd, VAG (UK) Ltd, Toyota (GB) Ltd, and Motor Vehicle Imports Ltd all have new car dealerships in the United Kingdom.

² An open point is a geographical area identified by the supplier as having the potential to sustain a dealership and within which the supplier wishes to appoint a dealer but has not yet done so.

knowledge and reputation, financial soundness, business and management skills and his enthusiasm to promote the marque. A dealer on appointment may be described as an 'authorised' or 'franchised' dealer. (For brevity-unless the sense of the text demands the full designation-we use the expression 'dealer' to mean an authorised or franchised dealer.) The appointment and future business relationship is normally regulated by a contract (which we call a dealer agreement) between the supplier and the chosen dealer (see Chapter 6 for further details of the contractual relationship between the supplier and the dealer).

5.7. Appendix 5.1 shows the numbers of dealerships (by marque) of 33 suppliers over the ten years from 1 January 1982 to 1 January 1991. In that period the number of outlets fell from 8,697 to 7,737, whilst new car sales rose from 1.5 million (1982) to 2.3 million (1989) before falling back to 2 million (1990). The level of representation of most of the suppliers changed substantially in that time. It has fallen away further with the decline in sales in 1991.

5.8. The most notable features over the period were:

- (a) the major decline in dealerships representing the larger-established United Kingdom volume car manufacturers (Ford, Vauxhall and Rover);
- (b) a less marked decline in the numbers of outlets representing other long-established suppliers;
- (c) a small decline in the number of dealers representing Japanese suppliers (although with large changes between marques); and
- (d) the entry and growth of four other non-Japanese suppliers (Yugo, SEAT, Hyundai and Proton) which by January 1991 had established 730 dealerships.

5.9. There is no close correlation between the number of dealers and the supplier's market share: for example, Ford, with Jaguar (25 per cent market share), had 1,100 dealers on 1 January 1991; Rover, with Land Rover (14 per cent), had 918; and Vauxhall (16 per cent) had 601. VAG (UK) has only slightly more dealers than Fiat although its market share (6 per cent) is double that of Fiat (at 3 per cent); and Renault has fewer dealers than Fiat despite having a slightly higher market share.

5.10. Rover told us that around 250 dealers were required for 40,000 to 50,000 new car registrations a year, and some 400 dealers for a market share of around 5 per cent; once a supplier had reached a market share of about 5 per cent, the number of dealers would tend to stabilise, while the number of sales per outlet would increase, broadly in line with any further rise in market share.

5.11. Suppliers' analyses of the optimum size and coverage of the network clearly have changed over time. All the leading suppliers reduced the number of their dealers between 1982 and 1991 despite the fact that during the same period they (except Renault and Fiat) increased the number of their new registrations.

Obstacles to expansion

5.12. Some leading suppliers considered that there were significant obstacles to building up an effective distribution network. Renault told us that good dealers with franchises from other large suppliers were prevented from accepting a Renault franchise in nearby territories. In some locations (for example, Birmingham) Renault had found it impossible to appoint suitable dealers since 1983. NMUK, whilst saying that the United Kingdom was overall a relatively open market, identified the development of an efficient distribution base as a barrier to competition. Peugeot told us that building up a dealer network was a slow process. On the other hand, Honda told us that it was relatively easy to set up a dealer network in the United Kingdom. Rover thought that the United Kingdom distributor networks were accessible to new car suppliers and that there were no appreciable barriers to new entrants.

5.13. The difficulty faced by suppliers in finding suitable dealers in the right locations may be shown by the open points in their networks at any one time. However, a supplier's day-to-day view of the coverage and optimum size of its network will take into account not only open points but also any restructuring considered appropriate. Table 5.2 summarises what some leading suppliers told us about their open points.

TABLE 5.2 **Open points in major United Kingdom suppliers' dealer coverage, 1 January 1989**

<i>Supplier</i>	<i>Number of open points</i>	<i>Number of dealers plus open points</i>	<i>Gap in dealer coverage (%)*</i>
Ford	61 (11 main, 50 retail)	1,068	6
Vauxhall	Adequate coverage		
Rover	72	1,016	7
VAG (UK)	Some		
Peugeot†	99	500	20
Citroën	60	303	20
Renault	39	Regards 14 per cent of national market as open	
Volvo	A few		
Fiat	Some		
BMW	Some		
Mercedes	Adequate coverage		
Lada	38	248	15

Source: Companies' views and MMC calculations based on data supplied by the companies.

*The number of open points as a percentage of the number of dealers plus open points.

†Provisional open points.

New suppliers

5.14. When a new supplier enters the market it is unlikely that it will try to set up its own exclusive dealer network. If for the first few years after entry a market share of no more than 1 per cent is forecast, the investment required to establish and sustain a network of (say) 200 dealers would not appear to be financially justifiable. There appear to be three choices of strategy for the immediate establishment of a franchised network by a new entrant:

- (a) reaching agreement with an established supplier to share all or part of its network;
- (b) reaching individual agreements with a number of established franchised dealers whose suppliers would permit them to hold other franchises; and
- (c) appointing its dealers from non-franchised car-related businesses such as petrol retailers, car workshops or used car outlets.

5.15. Whatever the method, a number of new suppliers established distribution networks in the 1980s and remained in the market (see paragraph 5.8). Table 5.3 shows the number of dealerships at varying times for four suppliers which entered the United Kingdom market in the last decade.

TABLE 5.3 **Number of dealerships for suppliers which entered the United Kingdom market in the 1980s**

<i>Supplier</i>	<i>Number of dealerships</i>			
	<i>First year</i>	<i>Lowest year</i>	<i>Highest year</i>	<i>1 January 1991</i>
Hyundai	157	150	215	215
SEAT	79	79	173	148
Isuzu	110	110	130	130
Proton	192	192	198	198

Source: Sewells International (as amended by companies).

5.16. The table shows that these new suppliers differed in the way they built up their networks. SEAT took four years to build up to 173 dealerships having started with 79, whilst Proton had almost 200 dealerships in its first year of operation.

5.17. The current (October 1991) position of Nissan Motor (the Japanese parent company) provides an interesting example of the rapid establishment of a dealer network. In 1991 Nissan Motor decided to terminate its contact with its independent United Kingdom distributor, Nissan UK, and set up its own network under a newly-established subsidiary, Nissan Motor (GB) (NMGB). NMGB told us that in 1991 it hoped to award franchises to around 200 dealers, although not all would be operating from the beginning of 1992. NMGB said that it plans to expand the network to between 400 and 450 dealers by the late 1990s. It says that it has received more than 900 serious enquiries from dealers interested in taking on its franchise. However, this is far from a typical example of a supplier setting up a new dealer network as the Nissan marque was already well-established in the United Kingdom market and there were some 150 existing dealers representing it who were independent of Nissan UK.

Obstacles to entry

5.18. A possible obstacle to the recruitment of a new dealer who already holds a franchise from another supplier is the prospect, from the dealer's point of view, of losing more than he gains by changing supplier. If the exclusivity conditions in his existing agreement (see Chapter 6) mean that he may lose his existing franchise if he accepts the new one, the offer from the new supplier will have to be that much better if it is to succeed. The larger and more profitable the dealer's existing franchise the greater the risk he has to consider. However, as will be seen from Appendix 5.2, many dealers (though not the majority) hold franchises from more than one supplier, usually on different sites.

Organisation of dealer networks

5.19. The organisation of dealer networks varies from one supplier to another. Most operate a single-tier system in which all dealers have a direct and equal relationship with the supplier. But some (see Appendix 5.1) have a two-tier system which comprises main dealers who are appointed by the supplier and retail dealers appointed by and responsible to the main dealers (but with the supplier's consent being obtained to the appointment and the contractual arrangements). All dealers selling new cars are obliged to provide service, spare parts and repair facilities for the marque supplied but there are a relatively small number of outlets that provide service only. Networks with the most 'service-only' outlets are those organised by Renault, Rover and Fiat.

5.20. Dealers may be companies, partnerships or sole traders and are generally corporately independent of their supplier. Some companies (which we call dealer groups in this report) have a large number of dealerships and a range of franchises, but the great majority of dealers have a single dealership. Table 5.4 shows the composition of the dealer networks of the top six United Kingdom suppliers in 1990.

TABLE 5.4 United Kingdom dealership network structure 1990

Position as at 1 January 1991

Franchises per dealer or dealer group	Number of dealers or dealer groups		Number of dealers or dealer groups		Number of dealers or dealer groups	
		Number of dealerships		Number of dealerships		Number of dealerships
	<i>Ford*</i>		<i>Vauxhall</i>		<i>Rover†</i>	
1	735	735	408	408	600	600
2-4	80	199	54	137	26	68
5-10	11	64	5	33	8	50
Over 10	0	0	2	23	5	71
Company-owned‡	0	14	0	0	0	0
Total	820	998	469	601	639	789
	<i>Peugeot</i>		<i>Nissan UK</i>		<i>VAG (UK)</i>	
1	324	324	114	114	145	145
2-4	24	49	26	60	66	169
5-10	1	5	2	13	3	17
Over 10	0	0	1	13	0	0
Company-owned‡	1	22	1	161	0	0
Total	350	400	304	361	214	331

Source: Companies' replies to MMC questionnaire.

*Excludes Jaguar.

†Excludes Land Rover.

‡'Company-owned' sites include partially owned.

Multiple dealerships

5.21. The retailing of new cars is highly fragmented: the great majority of dealers represent only one supplier and operate at a single site. However, there are a number of dealer groups, some of which are publicly-quoted companies (although not the largest, Nissan AFG). The strategies of these companies vary; some have outlets for different suppliers spread throughout the country; some concentrate on one supplier and have a wide geographical spread; others concentrate on one supplier and are located within a particular region; others tend to specialise in the luxury and sports car segment of the market. Several of the larger groups have 50 to 60 retail outlets and annual sales of 20,000 to 40,000 new cars. Some details of dealer groups are given in Appendix 5.3.

5.22. A dealer usually has to disclose to his prospective supplier any other franchises he holds prior to his appointment to a new franchise; these franchises are frequently registered in schedules to the dealer agreement and thus implicitly accepted by the supplier. The consent of the supplier normally has to be obtained if a dealer subsequently wishes to acquire further franchises from other car suppliers. Before deciding whether to give consent the supplier takes into account the resources available to the dealer, his current performance, the location of the prospective dealership, the types of car to be handled (to establish whether they are likely to be in competition or not with its own) and assesses where sales of its own marque are likely to be prejudiced by the additional franchise activity. Appendix 5.2 shows the number of dealers of the top 16 United Kingdom suppliers who hold franchises from other suppliers. The number of dealers holding more than one franchise is substantial and there are examples of more than one franchise being operated at the same site. Instances of competing models being displayed and promoted at the same premises also exist but are rare. It was suggested to us that Asda plc, the food retailing group, had engaged in multi-franchising of competing models at individual stores. However, Asda told us that this was not so: see Appendix 5.4.

Territory

5.23. On appointment a dealer is allocated a territory, usually defined by a post-code, within which he will usually be granted the exclusive rights to buy new cars from the supplier for the purpose of resale.

More than 80 per cent of dealers have such an exclusive territory. However, in areas of concentrated population, and for the more popular makes, a territory may be shared between a number of dealers. The criterion determining the size of a territory is its potential economically to support investment by the dealer in the sales and service facilities required. Before defining the size and shape of a potential territory, suppliers conduct research on population and car-owning trends, communications and traffic flow, customer convenience, and own-marque and other marque representation in the area.

5.24. Table 5.5 shows some information (compiled from suppliers' data) on dealers' territories in a random sample of 21 local authority districts (from a total of 423) in England, Scotland and Wales. The average area of a dealer's territory varies greatly, as is to be expected, but the range of population size served is much narrower.

Distribution of dealerships

5.25. Most of the suppliers provided computer lists of their dealers from which we were able to construct a database. We used a computer software package to plot the distribution of dealerships throughout England and Scotland both by the major suppliers and in total. We found, unsurprisingly, that the main concentration of dealerships coincides with the centres of greatest population density but that all suppliers, including those dealing in the more expensive lower volume makes, have a wide geographic spread. It will be seen from Table 5.5 that in the sample of districts examined a choice of marques was available in all districts but, as might be expected, was more extensive in Birmingham than Nairn.

Sales outside territories

5.26. Notwithstanding the territorial distribution system and restraints imposed by some suppliers on dealers seeking sales outside their territories (see paragraphs 6.46 and 6.47), many new car sales are made by dealers to individuals and organisations not resident in their own territory. The SMMT Motor Vehicle Registration Information System records the address given by the 'keeper' of a new car when registering it and the address of the dealer making the sale. The majority of suppliers report that a substantial proportion of their dealers' sales are registered outside the dealers' territories (see Appendix 5.5). For dealers for the leading suppliers the proportion of extra-territorial sales ranges between 40 and 70 per cent and most other suppliers report extra-territorial sales of 30 to 40 per cent. One supplier said that in the major conurbations (Glasgow, Leeds, Manchester, Liverpool, Birmingham and the London area within the M25) where places of work and residence are frequently in different dealership territories, there is a particularly high level of sales outside territory. Such sales may also be accounted for by sales made to finance and leasing companies whose registered offices are located outside the dealer's territory. Most suppliers state that, while they wish the dealer to concentrate his resources on promoting and selling their cars within his territory, in order to achieve maximum sales penetration, they impose no penalties on the dealer for extra-territorial sales, and such sales count towards annual sales targets.

Sales per dealership

5.27. Average annual sales of new cars per dealership by marque are shown in Appendix 5.6. The highest volume was attained by Vauxhall dealers (537 units), followed by Ford, VAG (UK), Rover, Peugeot and Nissan UK. These averages conceal very wide ranges within which some dealers within the same network may be selling thousands of cars and others only a few dozen (see Table 5.6). In 1989, for example, out of a total of some 8,000 dealerships there were nearly 1,200 which sold no more than 50 cars each. At the other extreme just under 500 dealerships sold between 501 and 1,000 cars and about 340 sold over 1,000 cars each. Of these 340, 61 per cent sold Ford cars (accounting for 16 per cent of all new cars sold by dealers), 21 per cent Vauxhall, 6 per cent Rover and 6 per cent Peugeot. The remaining 6 per cent were spread over a further six makes. Some of the major suppliers also negotiate large volume contracts direct with customers: these cars pass through dealers for pre-delivery inspection and registration and may distort the figures for individual dealers. Fleet sales form a large proportion of the sales of some of the largest dealers (selling between 4,000 and 8,000 cars a year).

TABLE 5.5 Population within, and area of, dealers' territories in a sample of 21 United Kingdom local authority districts, 1990

Local authority	Population	Area (km ²)	Population density (per km ²)	Average of dealer territory (km ²)	Number of dealers					'000 population per dealer
					Ford	Vauxhall	Rover	Other	Total	
Nairn	10,300	421.91	24.41	421.91	0	1	0	0	1	10
Rutland	36,400	393.64	92.47	78.73	3	1	1	0	5	7
Holderness	50,600	540.90	93.55	108.18	3	1	1	0	5	10
Adur	56,800	41.56	1,366.70	8.31	1	1	0	3	5	11
Rossendale	64,600	138.11	467.74	46.04	1	0	1	1	3	22
Gordon	70,800	2,214.18	31.98	316.31	3	1	1	2	7	10
South Hams	75,700	886.92	85.35	73.91	5	1	3	3	12	6
Carrick	80,300	459.96	174.58	23.00	3	1	2	14	20	4
E Yorkshire	84,800	1,043.67	81.25	52.18	3	3	4	10	20	4
Hartlepool	88,400	94.29	937.53	5.89	1	1	1	13	16	6
Angus	94,400	2,032.88	46.44	92.40	6	3	4	9	22	4
Rushcliffe	99,300	409.51	242.48	45.50	1	0	3	5	9	11
Breckland	104,300	1,305.00	79.92	72.50	4	6	1	7	18	6
Broxtowe	108,300	81.07	1,335.88	27.02	1	1	1	0	3	36
Wrexham Maelor	117,000	363.89	321.53	24.26	1	1	1	12	15	8
Newport	128,100	200.46	639.03	16.71	1	1	1	9	12	11
Newbury	138,700	692.64	200.25	36.45	2	2	2	13	19	7
Bournemouth	154,800	47.05	3,290.12	2.61	1	1	1	15	18	9
Southampton	196,700	56.34	3,491.30	2.68	2	2	2	15	21	9
Cardiff	283,900	120.09	2,364.06	3.75	3	2	3	24	32	9
Birmingham	<u>993,700</u>	<u>264.21</u>	<u>3,761.02</u>	<u>4.26</u>	<u>7</u>	<u>6</u>	<u>9</u>	<u>40</u>	<u>62</u>	<u>16</u>
Total	3,037,900	11,808.28	257.27	36.33	52	36	42	195	325	9

Source: Municipal Year Book (1990) and MMC estimates, based on information from suppliers.

5.28. Suppliers set sales targets for each of their dealers, generally in discussion with them. Targets are set by reference to historic performance, a forecast based on socio-economic trends or estimates, the market situation nationally and within the dealer's territory, the timing of the launch of the supplier's new models and those of its competitors, and the market share aspired to by the supplier and dealer. The range of targets set by 14 of the top 16 suppliers is shown in Table 5.6.

TABLE 5.6 **United Kingdom dealers' sales targets, by supplier, 1990**

	<i>Lowest less than</i>	<i>Highest more than</i>
Ford	100	8,000
Vauxhall	100	6,900
Rover	20	2,000
Peugeot	40	3,300
VAG (UK)	25	1,750
Renault	100	2,500
Volvo	50	1,000
Fiat	10	1,650
Citroën*	100	1,100
BMW	60	700
Toyota	100	600
MVI	50	400
Honda	100	500
Mazda	100	300

Source: Car suppliers' responses to MMC questionnaire.

*1989.

Suppliers' direct sales

5.29. Most suppliers reserve the right to make direct sales to final customers and most exercise this right to some degree. Some companies (eg car hire) and public services (eg the Post Office and police authorities) which have a sizeable annual requirement for new vehicles insist on negotiating directly with the suppliers, believing that this will lead to better terms than a piecemeal approach to a number of local dealers. Many suppliers also have special arrangements for staff purchases. For example, an employee and members of his immediate family may be able to purchase up to two cars a year between them at substantial discounts (see paragraph 7.108).

5.30. Although suppliers may be actively involved in these large transactions the mechanics of delivery and invoicing are usually handled through their dealers, since suppliers do not generally have the facilities to carry out pre-delivery inspection and registration. In some cases the supplier may negotiate with the customer centrally, paying the dealer a handling fee; in others the supplier may simply give the customer an additional rebate based on volume, leaving the main negotiation to take place between the dealer and customer. The top 16 suppliers provided figures for 1990 for these transactions under five main categories: sales to employees and affiliated companies; personal exports; sales to national and local government; sales to large companies; and sales to car hire companies. The totals, shown in Table 5.7, represent about 30 per cent of total new car registrations in 1990. (However, as will be seen from Tables 10.19, 10.20 and 10.21, the figures of direct sales not involving dealers are much smaller.)

TABLE 5.7 **United Kingdom transactions in which the top 16 suppliers were involved, 1990**

					<i>'000 units</i>	
<i>Sales to employees and affiliates</i>	<i>Personal exports</i>	<i>National/ local government</i>	<i>Large commercial</i>	<i>Car hire</i>	<i>Total</i>	
78	10	35	285	180	588	

Source: Car suppliers' replies to MMC questionnaire.

5.31. Suppliers' direct sales have been the subject of a number of dealer complaints, and were referred to by the RMIF and the Franchised Vehicle Retailer's Section (FVRS) of the SMMT in their evidence (see Chapter 11).

Car transfers (swaps) between dealers

5.32. A notable feature of the distribution system is the number of cars transferred between dealers before eventual sale. Although dealers are expected to stock the suppliers' models, few can do so for more than a small fraction of the model variants available. Computer viewdata systems provide a network link between suppliers and dealers. Using this facility a dealer can identify the whereabouts within the network of a model variant with the particular colour and trim required to fulfil his customer's order. Transfers between dealers have reduced delivery times to the customer and although accurate figures are not available industry estimates suggest that at least 40 per cent of new cars are subject to transfer before sale. Most suppliers see transfers between their dealers as an essential part of the distribution system and as a feature which is of benefit to customers. The fact that a dealer's new car stock is not usually owned by him but held on a consignment or sale or return basis (see paragraph 6.58) facilitates transfers.

Delivery of new cars

5.33. Suppliers almost invariably make the arrangements for delivery of new cars to their dealers' premises or to locations nominated by the dealers. Some suppliers use an affiliated company to arrange delivery but the actual transportation is usually subcontracted to specialist vehicle transporting companies. Suppliers charge their dealers separately for delivery and at a standard rate irrespective of distance (except to Northern Ireland,¹ the Isle of Man, the Channel Islands and the Isle of Wight). Suppliers select the depot, of which there may be several, from which delivery to the dealer is made.

Collection by dealers

5.34. Some dealer agreements prevent dealers from collecting their suppliers' cars ex-works or depot, but even where this is not the case few, if any, dealers choose to collect. All suppliers stress the advantages of their retaining control of deliveries. They claim reduced incidence of damage, control of delivery dates, optimum loading of transporters and simplified administration. Many point out that the facilities at the storage points from which vehicles are delivered are limited in space and staff and that lack of co-ordination in delivery would quickly lead to congestion and possible disruption of manufacturing schedules.

Customer collection

5.35. Only a few suppliers of the more expensive makes of car make provision for customers to collect vehicles ex-works or main storage depot. Suppliers observed that the retail sale is effected by the dealer at the dealer's premises and the fact that the sale is subject to a separate delivery charge² should not be taken to imply otherwise. There are no facilities for pre-delivery inspection nor for handling new car documentation at the suppliers' main depots. A number of suppliers argued that problems of production scheduling, congestion and safety which would apply to dealer collection would be greatly magnified if customers, too, had the right to collect their new cars. A number of suppliers emphasised the responsibility the dealer has to brief customers fully on the cars' controls and safety features before handover.

¹Ford's standard rate applies to Northern Ireland.

²For which there is a distinguished precedent: the Wardrobe Accounts of Edward IV for 1480 note a payment 'for carriage of the Kinges carre from Greenwiche'.

After-sales service by dealers

5.36. The provision of efficient after-sales service by dealers is generally considered to be one of the major benefits to accrue to consumers from the franchised dealer system.

5.37. In their evidence to us all suppliers emphasised the need for new car sales activities to be supported by service, spare parts, and repair facilities within the same dealership. Technical support in the form of manuals, specialist mechanical and engineering advice, training, diagnostic equipment and tools, much of it product-specific, is provided by car suppliers to dealers. Minimum standards for parts stocking and for parts stock control systems are frequently specified.

5.38. Dealers are obliged by the terms of their agreements with their suppliers to ensure that vehicles are delivered to the customer in safe and good condition by means of a pre-delivery inspection and to carry out any servicing and repairs required under warranty-whether the dealer conducted the sale or not.

5.39. Dealers are required to co-operate with suppliers in recall programmes, and the identification of production or design faults.

5.40. Dealers are reimbursed by suppliers for the cost of rectifying warranty and recall faults. In 1989 the value of such business to the dealers of the top 16 suppliers collectively amounted to £300 million.

5.41. For day-to-day service and repair, suppliers require dealers to have a formal quality control system with performance measurement criteria and internal reporting procedures. Two suppliers demand the appointment of quality controllers responsible for procedures and performance. Some suppliers told us that deficient quality control might be one factor among several for their considering termination of a dealership (although the implementation of an improvement programme was usually successful in raising standards). Few dealerships have been terminated for poor workmanship.

5.42. Suppliers have various ways of monitoring their dealers' performance in respect of service and repairs, the degree of monitoring depending on whether the supplier has to make a direct reimbursement to the dealer of expenses arising from a warranty claim. Suppliers closely check amounts charged back for warranty work and in most cases have pre-agreed labour rates or job times or both. Monitoring varies considerably between one supplier and another where the service or repair is paid for by the customer. Some take no interest in labour rates or job times, some have fixed servicing prices, others prescribe job times but not labour cost, others recommend labour rates. A very few carry out spot checks and look into any charge which appears excessive. One supplier said that its customer satisfaction surveys would reveal problems in this area. These surveys, which are widely used, are conducted by questionnaire, letter and telephone, at the time of sale and up to two years later. A dealer's performance can be assessed and any failing followed up by the supplier's field staff. Most suppliers mention the key role of field staff in securing satisfactory standards of dealer performance. We were told, too, that nearly all dealers observe the agreed Code of Practice¹ for the motor industry and have a formal system for dealing with customer complaints.

5.43. Suppliers believed that the quality of service provided by franchised dealers for their cars could be relied upon more than that provided by non-franchised repairers. They supported this belief by adducing the monitoring of standards by the supplier; ready availability of spare parts; quality of premises, parking area, organisation and customer information; product-specific training and knowledge; up-to-date technical manuals, specialised tools and equipment; a communications network giving rapid delivery of parts not in stock; access to manufacturers' technical expertise; and commitment to suppliers' marques. Only a few of the leading suppliers carry out an independent check on a regular basis. Comments from other bodies (particularly CA-see Chapter 11) which carry out comparative tests suggest that there is in general no significant difference in quality of servicing between franchised and non-franchised garages.

5.44. Suppliers provide buyers of new cars with a warranty. This usually promises free repair of mechanical or electrical defects arising within 12 months of purchase and many also include a warranty in

¹Drawn up by the SMMT, the RMIF, and the Scottish Motor Trade Association (SMTA), in consultation with the DGFT in 1976, and revised in 1981.

respect of paintwork (for up to three years) and body corrosion (for up to six years). Table 5.8 gives some examples from the major suppliers. A few suppliers have recently started offering a three-year warranty against mechanical defects. (In the USA three-year/30,000 miles warranties are usual.) In addition most suppliers offer or arrange with an insurance company for the provision of an extended warranty on payment of a single premium.

TABLE 5.8 Major suppliers' standard warranties, 1990

Supplier	Number of years warranty duration		
	Mechanical	Paint	Bodywork
Ford	1	-	6
Vauxhall	1	-	6
Rover	1	3	6
Peugeot	1	1	1 (anti-perforation warranty for six years)
Citroën	1	-	6
Renault	1	-	6 (8 years for bodywork of Renault 19 and Clio)
VAG (UK)	1	3	6 (10 years for Audi bodywork)
BMW	1	1	6
Mercedes-Benz	1	1	6
Fiat	1	3	6
Volvo	1	1	1 (plus additional contributions to repairs throughout vehicle's life)
Mazda	3	-	6
Toyota	3	3	6 (or 60,000 miles)
Nissan UK	3	3	6
Honda	2	3	6
MVI	2	-	6

Source: New car suppliers.

5.45. The results of a consumer survey conducted by the MMC as part of this inquiry contained a number of findings regarding new car purchasers' attitudes towards servicing and standards. A very high percentage of car purchasers surveyed (95 to 97 per cent) stated that they were satisfied or well satisfied with the quality of service they received, which was nearly always at a franchised dealership. Franchised dealers were thought to provide a better service than non-franchised repairers in terms of speed, diagnosis and rectification of defects, quality and availability of parts. Purchasers were fairly evenly divided as to whether franchised dealers were more expensive than non-franchised repairers.

Car brokers

5.46. A car broker acts as an agent for a would-be purchaser of a specific new car and will undertake (for a fee) to identify a dealer who would be prepared to sell that car at a discount. Some suppliers pointed out that the broker would require prior written authority from the customer before a dealer would be permitted to sell to him. We were told that dealers (whose active co-operation is a prerequisite for the brokers' success) welcome the additional sales opportunities that brokers provide.

Parallel imports

General

5.47. Although the vast majority of cars in use in the United Kingdom have been purchased there, it is possible to import new RHD cars manufactured to United Kingdom specifications but bought from dealers in other countries of the EC. The conditions which should apply to such sales have been laid down by the EC Commission in the Notice accompanying EC Regulation 123/85 (the Regulation) and are described more fully in the next paragraph.

Regulatory framework

5.48. The importance of there being channels for international transfers of new cars, other than via national sales companies, which individuals may use to acquire a new car in one EC country and export it to another was stressed by the EC Commission when it agreed to grant car dealer agreements exemption from the provisions of the Treaty of Rome dealing with restrictive agreements. The Regulation, which governs the matter, is discussed in detail in Chapter 6. To retain the benefits conferred by the Regulation, a supplier is obliged to fulfil an order from a dealer in one EC member state for any car which, although not marketed in that state, corresponds to a model in the local sales programme of that state and which is also marketed by the supplier in the member state in which the car is to be registered. This free movement is not to be obstructed by unjustifiable price, warranty or delivery differentials nor difficulties regarding import documentation and registration. In other words, although the actual car required may not be in the dealer's local sales programme, the price has to be the same as that of the local corresponding model adjusted only for specification differences and justifiable delivery and administration costs, and in certain countries for the effect of very high taxation or of price controls.

5.49. A customer may, under the Regulation, himself order the car required or authorise an intermediary in writing to act on his behalf. United Kingdom dealers and, we were told, dealers elsewhere in the EC are forbidden by their dealer agreements with their suppliers from selling to intermediaries who do not have written instructions from the final customer but who wish to make speculative purchases with a view to developing a parallel import business. This restriction is permitted by the Regulation.

5.50. A supplier is obliged, as a condition of exemption for its dealer agreements, to supply its dealer with a new car required by him to fulfil a contract with a final consumer who intends to register the car in another member state. However, there is no obligation on the dealer to enter into such a contract: if, for whatever reason, he does not want the business, he is free to tell the potential customer that he is not interested. It has been pointed out that this right of refusal is not unique to the motor trade.

5.51. There is in the Regulation no provision for the EC Commission to monitor on a regular basis whether the parallel import conditions are being observed: it learns of breaches only by way of complaint.

Parallel imports and dealer agreements

5.52. In general the provisions of dealer agreements in the United Kingdom cover only those models of car marketed by the supplier in the United Kingdom, ie RHD cars to United Kingdom specification. A number of suppliers have advised us of their understanding that elsewhere in the EC the terms of a dealer's agreement with his national supplier would likewise only cover local models and would not cover the supply of a United Kingdom specification car. If a United Kingdom specification car were requested from an EC dealer outside the United Kingdom it would not be supplied from stock, the dealer would not be able to accept an order automatically, and reference to the supplier for availability and price would have to be made before any contractual commitment to the customer could be undertaken. If, nonetheless, the dealer wished to make a contract in due course with the customer and place an order with the supplier, the latter would be obliged to supply.

5.53. Six suppliers were able to provide us with copies of letters circulated to their dealers explaining the obligations they have assumed under the Regulation. These letters advised dealers how to handle requests from customers residing outside the United Kingdom wishing to avail themselves of the opportunity of buying a non-United Kingdom specification car for export. We were told that these letters also apply to the case of the United Kingdom buyer who wishes to purchase a United Kingdom specification car from a dealer elsewhere in the EC. The three major suppliers, Ford, Vauxhall and Rover, are among those which have briefed dealers. The letters are factual and neutral in tone, setting out clearly the procedures to be followed, advising dealers that they are under no obligation to respond to a customer (but in one case asking the dealer to make it clear to the potential customer that any decision not to supply is his, not the manufacturer's).

Volume of United Kingdom parallel imports

5.54. Suppliers were asked to provide details of RHD cars supplied in 1990 to dealers in each EC state other than the United Kingdom and Ireland. Vauxhall and Rover together delivered about 1,000 such cars, but the other 14 major suppliers delivered very few. This, however, is not necessarily a reflection of the demand for their RHD models in the continental EC since the figures exclude sales of RHD models manufactured and delivered by affiliates outside the United Kingdom. Information on such deliveries has not been made available to us. Suppliers told us that most of the RHD vehicles supplied to EC dealers met United Kingdom specifications, but this was not invariably the case.

5.55. Suppliers said that they had never refused to supply a car when ordered and that they supplied on the normal local terms and conditions with such adjustments as were permitted by the Regulation. In an example given to us by a major supplier, the effect of adding a supplement to take account of the market distortion caused by the Belgian price notification system, adjustments for specification differences, administration and delivery cost together added over 20 per cent to the base price of the corresponding Belgian LHD model.

5.56. Parallel importing into the United Kingdom took place on a considerable scale in the early 1980s; it would appear that either practical difficulties have increased or that present price differences between the United Kingdom, Belgium and the Netherlands, although significant on some models, are not large enough to be attractive.

5.57. HM Customs estimates the number of parallel imports of new cars into the United Kingdom to be about 1,500 annually. The large number of personal imports arranged by United Kingdom expatriates in the continental EC and by Army and Royal Air Force personnel in Germany are generally classified as 'used vehicles' and are, therefore, not included in this figure.

5.58. Analysis of information from our dealer survey suggests very limited interest among their potential customers in buying cars from outside the United Kingdom. The larger dealer groups stated that they had no involvement with imports of RHD cars. Of the 300 dealers who responded to our survey, only 30 had been approached by customers with a request to import a car from a dealer in another EC member state. About ten had tried to do so. For those transactions which were pursued higher deposits were required and delivery times were longer.

5.59. We asked the major fleet operators whether they had investigated the feasibility of importing cars, whether they had actually done so and what difficulties they had experienced. A number of companies told us that they had made enquiries but very few had followed them up. Mention was made of the complexities of documentation, difficulties with HM Customs and costs of administration. Fleet discounts may also make parallel imports less attractive.

5.60. Our survey of recent buyers of new cars contained a number of questions designed to test public awareness of the possibility of buying a new car through a parallel importer. About two-thirds of the 2,000 new car buyers responding said that they had read of the existence of agents specialising in imports; but less than one-half of 1 per cent of those responding had actually bought a new car abroad either through an agent or by direct purchase, although those that had done so claimed to have derived a financial benefit. One respondent claimed to have imported four cars between 1982 and 1986 and to have saved over £2,000 on one and over £3,500 on another. He also claimed to have assisted over 80 relatives and friends to import successfully during that period.

5.61. CA has actively fostered parallel imports and designed an 'Action Pack' to help its members through the necessary import procedures. It has, however, now discontinued publishing this pack because of difficulties encountered by its members in securing positive responses from dealers elsewhere in the EC. CA's views on these problems are contained in paragraph 11.119.

Parallel imports: the market elsewhere within the EC

5.62. A paper produced by BEUC in October 1989¹ contains a section on 'Parallel imports: the market within the EC'. This opens with the comment that 'a striking though unfortunate aspect of the market for parallel imports is the immense difficulty that obtains in gathering reliable information about its scale'. A number of markets are examined on a country-by-country basis (including the United Kingdom) and some statistics quoted, including an estimate by a Belgian trade body of 25,000/30,000 parallel exports from Belgium. The evidence given in the case of *Ecosystems SA v Peugeot SA* before the EC Commission indicated that Ecosystems, although a relatively small French intermediary, had engaged in parallel imports on behalf of its customers of about 4,000 cars from Belgium in 1988/89.

Car distribution in other EC countries

5.63. Some information about the size of the larger manufacturers' dealer networks in some EC countries is given in Table 5.9.

TABLE 5.9 **Car dealer networks in certain EC countries, 1 January 1991**

<i>Manufacturer</i>	<i>Number of dealers</i>						
	<i>UK</i>	<i>France</i>	<i>Germany</i>	<i>Ireland</i>	<i>Netherlands</i>	<i>Belgium and Luxembourg</i>	
Ford	998	313	2,076	946	250	498	
General Motors/Vauxhall	601	598	2,270	626	292	299	
Rover	789	584	167	523	124	63	
PSA	631	9,408	1,896	2,901	369	875	
Volkswagen	331	486	3,280	953	292	307	
Nissan	361	399	846	140	219	363	
Renault	264	8,908	1,315	1,938	249	533	
Volvo	264	152	356	295	154	116	
Fiat	305	304	602	831	144	109	
BMW	162	266	958	264	148	104	
Toyota	218	185	794	91	225	285	
Mercedes-Benz	126	237	928	168	90	96	
Lada	203	Not available					
Honda	152	111	498	54	104	87	
Mazda	174	417	1,006	51	194	280	

Source: Sewells International (amended by suppliers in some cases).

¹EEC Study on car prices and progress towards 1992.