

# **Motor car parts**

A report on the wholesale supply of  
motor car parts within the United Kingdom



MONOPOLIES AND MERGERS COMMISSION

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A report on the wholesale supply of motor  
car parts within the United Kingdom

**Presented to Parliament by the Secretary of State for  
Trade and Industry by Command of Her Majesty  
February 1992**

## Members of the Monopolies and Mergers Commission as at 20 December 1991

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<sup>1</sup>These members formed the group which was responsible for this report under the chairmanship of Sir Sydney Lipworth.

## **Note by the Department of Trade and Industry**

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests. The omission is indicated by a note in the text.

# Contents

	<i>Page</i>
<i>Chapter</i>	
1 Summary .....	1
2 Background to the reference.....	4
3 United Kingdom market for replacement car parts.....	7
4 Car suppliers' distribution arrangements for parts; and relevant legislation.....	31
5 Financial information on the industry .....	42
6 Views of other interested parties .....	58
7 Views of the main parties .....	84
8 Conclusions.....	139
Glossary .....	160
 <i>Appendices</i>	
(The numbering of the appendices indicates the chapters to which they relate.)	
1.1 Conduct of the inquiry.....	164
3.1 Market surveys.....	167
3.2 Summary of individual car suppliers' purchasing conditions.....	170
4.1 Numbers of dealerships, by marque, 1 January 1982 to 1 January 1991 .....	174
4.2 EC Commission Regulation 123/85 of 12 December 1984 .....	175
4.3 Response by Directorate General IV of the EC Commission to the MMC, on the interpretation of EC Regulation 123/85 as it affects the supply of spare parts .....	186
4.4 Car suppliers' bonus/rebate schemes for car parts.....	187
4.5 Conditions in standard warranties relating to servicing and repair of cars and the use of parts for warranty work and repairs .....	194
4.6 Restrictions imposed by suppliers in dealer agreements or related documents or policies .....	198
5.1 Respondent component manufacturers, excluding tyre manufacturers- motor vehicle parts: analysis of turnover, profits and margins by segment, 1986 to 1990.....	204
7.1 MMC's public interest letter: extracts from a letter from the Secretary of the MMC to the parties shown in the appendix to the letter, 15 April 1991.....	205
7.2 MMC's remedies letters: extracts from letters from the Secretary of the MMC to interested parties, 14 June 1991 and 21 November 1991 .....	210
8.1 Companies within the complex monopoly situation.....	213
 Index .....	215

# 1 Summary

1.1. We have been asked to investigate and report on whether a monopoly situation within the meaning of section 6 of the Fair Trading Act 1973 (the Act) exists in relation to the wholesale supply of motor car replacement parts in the United Kingdom and, if so, whether any facts found operate or may be expected to operate against the public interest. Our reference<sup>1</sup> relates to wholesale supply and we have therefore not been directly concerned with retail prices of parts. A concurrent reference was made in respect of the supply of new motor cars, and is the subject of a separate report.<sup>2</sup>

1.2. We found that a complex monopoly situation within the meaning of the Act exists in favour of the car suppliers, whose shares of the supply of replacement parts in 1989 together exceeded 25 per cent, and who engage in a number of relevant practices affecting the supply of replacement parts to their franchised dealers and the supply of replacement parts to the independent aftermarket.

1.3. The size of the United Kingdom market for replacement parts is about £2.5 billion at wholesale prices (approximately £3.4 billion at retail prices). The market consists of the thousands of different parts that may need replacement at some time during the life of a car, ranging from major components like engines and gearboxes to routine maintenance items like brake parts, tyres, exhausts and windscreen wipers. Some replacement parts are produced by car manufacturers themselves. Most are produced by a large number of component manufacturers, usually specialising in particular kinds of parts, which supply parts to the car manufacturers, both as original equipment (OE) for fitting during the assembly of their cars and for onward sale by the car suppliers as replacement parts (RE) for the repair or servicing of those cars. Many component manufacturers also supply replacement parts to the independent aftermarket.

1.4. There are two main streams of wholesale supply of replacement parts: by new car suppliers (United Kingdom manufacturers and importers) to their franchised dealer networks, and by independent component suppliers (manufacturers and importers) directly, or through parts factors or distributors, to independent garages, fast-fit and autocentres and to retail outlets. Car suppliers supply approximately 55 per cent of this wholesale market and independent suppliers about 45 per cent. The two streams of supply remain largely separate. Car suppliers will supply parts only to their franchised dealers and their franchised dealers buy very few parts from other sources. Independent garages, however, in addition to purchases from independent suppliers, buy parts from the franchised dealers, including 'captive' parts for which there are no sources of supply other than the car suppliers.

1.5. At the consumer level most parts are sold as part of a car service or repair and the parts used are largely determined by the choice of outlet. Cars under warranty or extended warranty, cars still in first ownership and company cars tend to be serviced in the franchised sector while

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<sup>1</sup>See Appendix 1.1.

<sup>2</sup>*Supply of new motor cars*, Cm 1808, February 1992.

the independent garages mainly look after the older cars. Apart from the special case of replacement tyres, which have their own distribution system, and account for about 13 per cent of the market, component suppliers tend to concentrate on supplying to the independent sector parts that are replaced relatively frequently, or parts suitable for fitting across a range of cars.

1.6. The market as a whole appears to have grown little in real terms over the past ten years, despite the increase in the car parc of 30 per cent over the period. This indicates a significant fall in the real outlay per car on replacement parts, mainly due to the increasing reliability and life of parts and less frequent servicing, themselves by-products of inter-brand competition. The car suppliers' share of the total wholesale market has risen from 43 per cent in 1980 to 55 per cent in 1989. There appear to be several reasons for this trend. At the consumer level, these include longer warranty and extended warranty periods, the growth in the company car sector, and the growing sophistication of some car systems, all encouraging the use of the franchised dealer. At the manufacturing level they include on the one hand declining opportunities for component manufacturers' RE sales direct to the independent sector as a result of increased parts reliability; on the other increasing dependence on both RE and OE sales to car suppliers, partly as a result of the trend towards closer co-operation between car suppliers and component manufacturers, in designing parts specific to the individual car model.

1.7. There is active competition between component manufacturers in supplying both OE and RE parts to the car suppliers and in wholesaling to the independent sector. At the wholesaling level, within the franchised area, there is limited direct competition from other wholesalers, either independents or other car suppliers, for the franchised dealers' business, and each car supplier has a strong hold on the wholesaling of parts within its own franchised network. Once the consumer has made a new car purchase he is largely committed to servicing and repair within that supplier's franchised network for a period. The car suppliers are nevertheless subject to constraints on their freedom to set their own wholesale prices and terms, by the reputation of their particular brand and by the prices and terms of other car suppliers to their own franchised dealers. Over the longer term the supplier cannot afford to have a reputation for high parts prices since they are noted in the specialist press, affect insurance ratings and are a factor in the consumer's choice of car. The independent sector competes successfully for servicing and repairing the older cars and also has some influence, though more limited, on the cost of servicing the newer cars. In our report on new motor cars we have made a number of recommendations and suggestions, designed to increase competition in the new car market. If implemented they should also have the effect of increasing competition within the franchised sector for servicing and for the supply of replacement parts.

1.8. In considering the public interest issues arising from our finding, against the background set out above, we identified two main concerns. First, that the independent replacement parts sector should not be weakened by practices that unreasonably restrict it in competing with the car suppliers and their franchised network in the supply of replacement parts. Secondly, that the independent servicing and repair sector's ability to compete with the franchised sector depends on continuing access to parts and the information required to fit them and that this should not be impaired. We identified areas of potential concern about some of the car suppliers' practices, namely:

- (a) bonuses linking performance on parts sales with performance against other targets;
- (b) the refusal to supply parts except to their franchised dealers;
- (c) restrictions on component manufacturers' ability to supply the independent aftermarket;  
and

(d) the withholding by car suppliers of information needed for the use of diagnostic equipment.

1.9. While we do not find that any of these practices operate or may be expected to operate against the public interest, we identify developments in the market that may weaken the competitive position of the independent aftermarket and may give rise to a need to reappraise one or more of these practices and their potential anti-competitive effects in the longer term. We have suggested that in such circumstances action under the Competition Act or a further reference under the Fair Trading Act might be considered.

1.10. We have drawn attention in particular to the potential adverse effects of failure to secure satisfactory arrangements for the release of information required for the use of diagnostic equipment. If, contrary to our expectations, such arrangements are not secured, we have noted the additional powers available to the Secretary of State in section 144 of the Copyright, Designs and Patents Act 1988.