

5 Financial information on the industry

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Introduction

5.1. In this chapter we summarise the financial information obtained from component manufacturers, car suppliers and dealers. This information was derived from the following sources:

- (a) published accounts;
- (b) responses to MMC questionnaires to component manufacturers, car suppliers and dealers; and
- (c) the comments of individual firms on our material.

Structure and characteristics of the industry

5.2. The structure of the industry is discussed more fully in Chapter 3. We note salient features pertaining to this chapter below.

5.3. The parts industry is divided into two main types of business: OE supply to the car suppliers for the assembly of cars on the production line and RE supply to the aftermarket. The aftermarket includes franchised dealers at both wholesale and retail level, motor factors and independent wholesalers at the wholesale level and independent garages at the retail level.

5.4. The aftermarket is supplied through two main distribution channels, which are illustrated in Figure 3.1:

- (a) domestic and overseas component manufacturers which, in addition to supplying the car suppliers for onward sale to the franchised dealer networks, also supply both directly and via independent wholesalers, independent garages, fleet owners, autocentres, parts accessory shops and other outlets; and
- (b) the car suppliers which supply substantially the whole of their franchised dealer networks with aftermarket parts.

5.5. Most component manufacturers supply both OE and RE parts to the car suppliers and some also remanufacture parts (refurbish used parts) for exchange programmes that are operated by several of the car suppliers.

5.6. There are over 1,000 component manufacturers operating within the United Kingdom and many more which operate world-wide and export parts and components to the United Kingdom. There are also more than 40 car suppliers in the United Kingdom which act essentially as wholesalers supplying car parts to their dealer networks. These car suppliers purchase the majority of the parts they supply to the aftermarket from component manufacturers and from affiliated companies within their own groups.

5.7. In the early years of a car's life, the owner tends to purchase parts from the supplier's franchised dealer (this is encouraged by warranty conditions). In later years, the owner tends to purchase parts from the independent sector.

5.8. There are a number of characteristics of this industry which need to be borne in mind when considering the material set out in this chapter. These are as follows:

- (a) Although there is a distinction drawn between OE and RE parts, both by the industry and for the purposes of our report, it is often difficult to differentiate one from the other as they will commonly be identical but put to different uses. This problem of differentiation is particularly acute for those component manufacturers which supply the car suppliers with parts and do not distinguish between OE and RE parts in their operations and deliveries. These parts may be used as either OE or RE by the car suppliers, but the component manufacturer may not be aware of the quantities being applied to either use. Thus, when we asked the component manufacturers to provide information which segmented results between OE and RE supply, many had to provide estimates. Additionally the component manufacturers were not able to isolate figures included within the car parts results which related to light commercial van parts as many of these are interchangeable with car parts.
- (b) The car suppliers informed us that their operations in the United Kingdom were integrated and that the supply of cars and parts is one business. For the purposes of this chapter, however, we have sought to distinguish the costs and profits arising on parts from those arising on cars and the other activities of the car suppliers and our approach is discussed in more detail in paragraphs 5.33 to 5.35.

Method and approach

5.9. With these considerations in mind we have proceeded in this chapter to analyse the financial results of the components manufacturers (paragraphs 5.12 to 5.29), then the financial results of the parts operations of the car suppliers (paragraphs 5.30 to 5.49) and finally the sources of supply of franchised dealers (paragraphs 5.50 to 5.53).

5.10. We have assessed the financial results of the component manufacturers over the five years from 1986 to 1990. This assessment is based on a survey of 32 larger manufacturers of motor vehicle parts with aggregate turnover of £1.7 billion in 1990 (see paragraph 5.12).

- (a) We examine the total business of the component manufacturers in paragraphs 5.12 to 5.14 and Table 5.1.
- (b) We deal with the motor vehicle parts elements of these results in paragraphs 5.15 and 5.16 and Table 5.2.

- (c) We analyse motor vehicle parts by trade channels for the years 1989 and 1990 in paragraphs 5.17 to 5.19 and Table 5.3.
- (d) We analyse the results for motor vehicle parts between car parts (turnover £1.3 billion in 1990) and commercial vehicle parts (£0.4 billion in 1990) in paragraphs 5.20 and 5.21 and Table 5.4.
- (e) We identify in paragraphs 5.23 and 5.24 and Table 5.6 those motor vehicle parts which it was estimated related to OE parts for fitment on assembly lines (£792 million in 1990), remanufactured parts for car suppliers resulting from an exchange (£42 million in 1990), replacement parts for the aftermarket (£543 million in 1990) and exports (£307 million in 1990).
- (f) In paragraphs 5.25 to 5.27 and Table 5.7 we analyse the replacement parts business shown in Table 5.6 by selected trade channels.
- (g) In paragraphs 5.22, 5.48 and 5.49 and in Tables 5.5 and 5.12, for the years 1986 to 1990, we restate at constant 1990 prices the overall results respectively of component manufacturers' motor vehicle parts and car parts business and major car suppliers' wholesale parts business using the Producer Price Index (PPI).
- (h) In paragraphs 5.28 and 5.29 and Appendix 5.1 we analyse motor vehicle parts by segment for non-tyre companies.

5.11. In paragraphs 5.30 to 5.49 and in Tables 5.8 to 5.12, we set out the results for all the car suppliers, and for the 17 major car suppliers on their total parts business and parts wholesaling operations separately. This information was collected as part of our inquiry into the supply of new cars in the United Kingdom.¹ Finally, in paragraphs 5.50 to 5.53 and in Table 5.13 we set out information from a survey of franchised dealers, concentrating upon their sources of supply.

Component manufacturers

5.12. A financial questionnaire was sent to a sample of component manufacturers representing a substantial part of the industry and the respondent companies' aggregated results are presented in the tables which follow. The respondent companies were 28 major component manufacturers and four tyre manufacturers. The turnover in 1990 of motor vehicle parts for these 32 companies amounted to £1.7 billion (see Table 5.2). During the same year the total United Kingdom wholesale market for replacement car parts was estimated to be some £2.5 billion. In addition to sales by the component manufacturers direct to the retail trade this figure includes sales by car suppliers and importers. In 1989 some £267 million (see Table 5.7) represented sales to independent distributors in the replacement market. During 1989 the total United Kingdom replacement market for wholesale distribution to independent trade channels was £1.1 billion (see Table 3.4); our sample therefore represents some 24.3 per cent of the total industry's market for wholesale replacement parts to independent trade channels.

5.13. Table 5.1 presents a summary of the overall performance of the 32 respondent component manufacturers. Although motor vehicle parts business represents a significant part of the total operations of these companies, many are also active in other business areas such as general engineering, tractor and agricultural machinery parts, and paints. Table 5.1 summarises the results from all these various operations.

¹The MMC's report on the *Supply of new cars in the United Kingdom* is being published simultaneously by HMSO.

TABLE 5.1 Respondent component manufacturers-overall results: turnover, profit and average capital employed for the years 1986 to 1990*

	<i>£ million</i>					
	1986	1987	1988	1989	1990	Total 1986 to 1990
Turnover	2,223.3	2,463.4	2,697.1	2,810.4	2,913.1	13,107.3
Gross profit	519.0	581.9	651.8	657.6	655.4	3,065.7
Overhead costs†	<u>431.2</u>	<u>469.7</u>	<u>442.2</u>	<u>479.1</u>	<u>523.2</u>	<u>2,345.4</u>
Net profit before interest and tax	87.8	112.2	209.6	178.5	132.2	720.3
Average capital employed‡	856.2	878.7	890.3	1,032.1	1,186.5	4,843.8
	<i>per cent</i>					
Gross margin	23.3	23.6	24.2	23.4	22.5	23.4
Net margin	3.9	4.6	7.8	6.4	4.5	5.5
Return on average capital employed	10.3	12.8	23.5	17.3	11.1	14.9

Source: MMC from company data.

*Includes non-reference activities and respondent tyre company results.

†Unallocated variable and fixed costs.

‡Tangible fixed assets plus other trading assets and investments, less creditors due within one year (excluding borrowings).

5.14. Gross profits were static during 1988, 1989 and 1990 but overhead costs which were relatively stable during the period 1986 to 1988 increased during 1989 and 1990 and these contributed to the declining net margins earned during those two years.

Results of the motor vehicle parts business

5.15. Table 5.2 analyses the results of all respondent component manufacturers' motor vehicle parts business only.

TABLE 5.2 Respondent component manufacturers-motor vehicle parts: turnover, profit and average capital employed, for cars and commercial vehicle parts, from 1986 to 1990*

	<i>£ million</i>					
	1986	1987	1988	1989	1990	Total 1986 to 1990
Motor vehicle parts Turnover	1,265.3	1,392.2	1,500.7	1,589.6	1,684.4	7,432.2
Gross profit	258.0	286.8	319.2	315.0	329.1	1,508.1
Overhead costs	<u>224.5</u>	<u>243.4</u>	<u>202.6</u>	<u>224.2</u>	<u>278.6</u>	<u>1,173.3</u>
Net profits before interest and tax	33.5	43.4	116.6	90.8	50.5	334.8
Average capital employed‡	543.9	551.7	565.4	642.1	733.5	3,036.6
	<i>per cent</i>					
Gross margin	20.4	20.6	21.3	19.8	19.5	20.3
Net margin	2.6	3.1	7.8	5.7	3.0	4.5
Return on average capital employed	6.2	7.9	20.6	14.1	6.9	11.0
	<i>number</i>					
Number of times capital turned over	2.3	2.5	2.7	2.5	2.3	2.4

Source: MMC from company data.

*Includes car and all commercial vehicle parts and respondent tyre company results.

‡Tangible fixed assets plus other trading assets and investments less creditors due within one year (excluding borrowings).

5.16. This table shows that the return on average capital employed on motor vehicle parts is consistently lower than that earned by the companies from their total business operations shown in Table 5.1 and has declined substantially during 1989 and 1990. Table 5.2 shows the decline to be largely due to increases in overhead costs in 1989 and 1990 which were not matched by increases in gross profit.

Analysis of motor vehicle parts by trade channels

5.17. Table 5.3 analyses the results of respondent component manufacturers' motor vehicle parts businesses shown in Table 5.2, for 1989 and 1990 only, by trade channels.

TABLE 5.3 Respondent component manufacturers-motor vehicle parts: analysis of turnover and gross profit by trade channels for the years 1989 and 1990*

	1989				1990			
	Turnover £m	UK sales mix %	Gross profit £m	Gross margin %	Turnover £m	UK sales mix %	Gross profit £m	Gross margin %
<i>United Kingdom sales to:</i>								
Car suppliers	823.0	64.3	101.3	12.3	889.9	64.6	108.1	12.1
Other component manufacturers	19.4	1.5	4.9	25.3	17.7	1.3	3.7	20.9
Independent distributors	272.0	21.3	89.9	33.1	290.1	21.1	89.7	30.9
Franchised dealers	4.3	0.3	1.3	30.2	5.2	0.4	1.7	32.7
Other garages	34.0	2.7	11.3	33.2	39.3	2.9	12.4	31.6
Specialised fitting centres	7.9	0.6	2.4	30.4	8.0	0.6	2.4	30.0
Other retail outlets	99.3	7.8	38.6	38.9	102.1	7.4	40.0	39.2
Other†	<u>20.1</u>	<u>1.5</u>	<u>4.1</u>	<u>20.4</u>	<u>25.3</u>	<u>1.7</u>	<u>5.3</u>	<u>20.9</u>
United Kingdom sales	1,280.0	100.0	253.8	19.8	1,377.6	100.0	263.3	19.1
Exports	<u>309.6</u>		<u>61.2</u>	<u>19.8</u>	<u>306.8</u>		<u>65.8</u>	<u>21.4</u>
Total‡	1,589.6		315.0	19.8	1,684.4		329.1	19.5

Source: MMC from company data.

*Includes car and all commercial vehicle parts and respondent tyre company results.

†Figures for one company which was unable to analyse its turnover and gross profits by trade channels.

‡As a percentage of total sales United Kingdom and export sales were respectively 80.5 and 19.5 per cent in 1989 and 81.8 and 18.2 per cent in 1990.

5.18. The low level of direct sales by these component manufacturers to franchised dealers largely reflects the supply to dealers of the majority of their parts by the car suppliers under franchise agreements. During 1990 gross margins earned from United Kingdom sales were 19.1 per cent and from export sales 21.4 per cent. Table 5.3 shows that after the car suppliers, the second most important trade channel was the independent distributors; and their combined share of sales in the United Kingdom was 85.6 per cent in 1989 and 85.7 per cent in 1990.

5.19. In 1990 the range of gross margins earned varied from as little as 12.1 per cent from sales to car suppliers to 39.2 per cent from sales to 'other retail outlets'. To some extent, these differences in gross margins reflect the higher costs involved in supplying retail outlets, as compared with bulk deliveries to car suppliers.

Turnover and gross profit of car parts and commercial vehicle parts

5.20. Most companies' accounting systems are not structured to allow division of parts business between cars and commercial vehicles at the net profit level. Some had difficulty in providing us with this information even at the gross profit level because, as already mentioned, the same parts may be identical for both cars and light commercial vehicles. However, in these cases the companies estimated this split for us. Table 5.4 sets out the motor vehicle parts business of the respondent component manufacturers analysed between car and commercial vehicle parts at the turnover and gross profit levels.

TABLE 5.4 Respondent component manufacturers-car and commercial vehicle OE and RE parts: turnover, gross profit and gross margin for the years 1986 to 1990

	1986	1987	1988	1989	1990	Total 1986 to 1990
<i>Car parts* (£m)</i>						
Turnover	959.2	1,059.6	1,150.0	1,201.4	1,280.3	5,650.5
Gross profit	175.0	201.3	232.6	225.3	233.7	1,067.9
Gross margin (%)	18.2	19.0	20.2	18.8	18.3	18.9
<i>Commercial vehicle parts (£m)</i>						
Turnover	306.1	332.6	350.7	388.2	404.1	1,781.7
Gross profit	83.0	85.5	86.6	89.7	95.4	440.2
Gross margin (%)	27.1	25.7	24.7	23.1	23.6	24.7

Source: MMC from company data.

*Includes car and some light commercial van parts which are interchangeable and also respondent tyre company results.

5.21. Gross margins earned on commercial vehicle parts (consistently over 23 per cent) are significantly higher than those for car parts (ranging between 18 and 20 per cent). Whilst part of the reason for the gross margin differences may result from the product mix which exists within the study sample (simply because it is not a full reflection of overall industry mix), we have also been told by a major supplier that:

- (a) A larger proportion of commercial vehicle parts are sold to the aftermarket than is the case with car parts. As RE parts have a higher gross margin than OE parts this raises the overall gross margin for commercial vehicle parts.
- (b) Margins on commercial vehicle parts are generally better because there was less competition than in car parts and the lower volumes of sales of commercial vehicles require higher margins to reach an acceptable level of overall profitability.
- (c) Sales in the aftermarket tend to require larger stockholdings and greater variety so that higher gross margins are required to recover the costs and interest charges which arise from these larger stockholdings.

However, the differences in gross margins has narrowed over the five years from 8.9 per cent in 1986 to 5.3 per cent in 1990; Table 5.4 shows this to be largely because commercial vehicle parts gross margins have declined.

Restatement of motor vehicle parts turnover, gross and net profits and car parts turnover and gross profit at constant 1990 prices using the PPI

5.22. Table 5.5 restates the results for the car parts business set out in Table 5.4 and the motor vehicle parts business of the respondent component manufacturers at constant 1990 prices (using the PPI) from 1986 to 1990. We have used the PPI-All Items (excluding food, drink and tobacco) as this represents a broad measure of increases in manufacturing costs in United Kingdom industry. We have not used the PPI specific to cars as it is difficult to estimate how far this relates to car parts and there are problems in identifying the extent to which quality changes over the period have been taken into account-as discussed in our report on the *Supply of new motor cars in the United Kingdom* (paragraph 7.81). Table 5.5 shows that in real terms there was an increase in turnover from 1986 to 1988 but that turnover was virtually static thereafter; and that there was an increase in gross profit to 1988 followed by a decline to 1990.

TABLE 5.5 Respondent component manufacturers-motor vehicle and car parts: results restated at constant 1990 prices using the PPI:* turnover, gross profit and margin from 1986 to 1990†

	1986	1987	1988	1989	1990	Total 1986 to 1990
<i>Car parts‡ (£m)</i>						
Turnover	1,158.8	1,232.8	1,280.0	1,272.1	1,280.3	6,224.0
Gross profit	211.4	234.2	258.9	238.6	233.7	1,176.8
Gross margin (%)	18.2	19.0	20.2	18.8	18.3	18.9
<i>Component manufacturers motor vehicle parts business§ (£m)</i>						
Turnover	1,528.6	1,619.7	1,670.4	1,683.1	1,684.4	8,186.2
Gross profit	311.7	333.7	355.3	333.5	329.1	1,663.3
Net profits before interest and tax	40.5	50.5	129.8	96.1	50.5	367.4
Gross margin (%)	20.4	20.6	21.3	19.8	19.5	20.3

Source: MMC from company data.

*PPI-All Items (1985 = 100) 104.3 108.3 113.2 119.0 126.0

†Includes respondent tyre company results.

‡Car and some light commercial vehicle parts.

§Includes car and all commercial vehicle parts.

Analysis of motor vehicle parts by segment

5.23. Table 5.6 analyses the motor vehicle parts business by segment according to the estimates provided by the respondent companies: these segment the business between OE supplies, remanufactured parts, replacement parts and exports. As the companies were unable to distinguish car parts figures from commercial vehicle parts figures at this level of detail, this table includes both.

TABLE 5.6 Respondent component manufacturers-motor vehicle OE and RE parts: analysis of turnover, profit and margin by segment from 1986 to 1990*

	<i>£ million</i>					
	1986	1987	1988	1989	1990	Total
<i>Turnover</i>						
OE supplies†	573.7	657.8	699.8	720.5	792.3	3,444.1
Remanufactured parts‡	29.8	33.2	38.6	39.4	42.0	183.0
Replacement parts	<u>405.6</u>	<u>423.1</u>	<u>473.0</u>	<u>520.1</u>	<u>543.3</u>	<u>2,365.1</u>
	1,009.1	1,114.1	1,211.4	1,280.0	1,377.6	5,992.2
Exports	<u>256.2</u>	<u>278.1</u>	<u>289.3</u>	<u>309.6</u>	<u>306.8</u>	<u>1,440.0</u>
Total	<u>1,265.3</u>	<u>1,392.2</u>	<u>1,500.7</u>	<u>1,589.6</u>	<u>1,684.4</u>	<u>7,432.2</u>
<i>Gross profit</i>						
OE supplies†	64.9	71.1	84.9	67.1	76.7	364.7
Remanufactured parts‡	6.4	7.9	8.9	9.1	8.8	41.1
Replacement parts	<u>133.7</u>	<u>146.2</u>	<u>164.0</u>	<u>177.6</u>	<u>177.7</u>	<u>799.2</u>
	205.0	225.2	257.8	253.8	263.2	1,205.0
Exports	<u>53.0</u>	<u>61.6</u>	<u>61.4</u>	<u>61.2</u>	<u>65.9</u>	<u>303.1</u>
Total	<u>258.0</u>	<u>286.8</u>	<u>319.2</u>	<u>315.0</u>	<u>329.1</u>	<u>1,508.1§</u>
<i>Net profit¶</i>						
OE supplies†	(19.3)	(26.8)	29.9	2.0	(18.2)	(32.4)
Remanufactured parts‡	(0.1)	(0.1)	1.7	2.1	1.6	5.2
Replacement parts	<u>47.5</u>	<u>58.0</u>	<u>72.5</u>	<u>73.5</u>	<u>60.0</u>	<u>311.5</u>
	28.1	31.1	104.1	77.6	43.4	284.3
Exports	<u>5.4</u>	<u>12.3</u>	<u>12.5</u>	<u>13.2</u>	<u>7.1</u>	<u>50.5</u>
Total	<u>33.5</u>	<u>43.4</u>	<u>116.6</u>	<u>90.8</u>	<u>50.5</u>	<u>334.8</u>
<i>per cent</i>						
<i>Gross margin</i>						
OE supplies†	11.3	10.8	12.1	9.3	9.7	10.6
Remanufactured parts‡	21.5	23.8	23.1	23.1	21.0	22.5
Replacement parts	<u>33.0</u>	<u>34.6</u>	<u>34.7</u>	<u>34.1</u>	<u>32.7</u>	<u>33.8</u>
	20.3	20.2	21.3	19.8	19.1	20.1
Exports	<u>20.7</u>	<u>22.2</u>	<u>21.2</u>	<u>19.8</u>	<u>21.5</u>	<u>21.0</u>
Overall average	<u>20.4</u>	<u>20.6</u>	<u>21.3</u>	<u>19.8</u>	<u>19.5</u>	<u>20.3</u>
<i>Net margin</i>						
OE supplies†	(3.4)	(4.1)	4.3	0.3	(2.3)	(0.9)
Remanufactured parts‡	(0.3)	(0.3)	4.4	5.3	3.8	2.8
Replacement parts	<u>11.7</u>	<u>13.7</u>	<u>15.3</u>	<u>14.1</u>	<u>11.0</u>	<u>13.2</u>
	2.8	2.8	8.6	6.1	3.2	4.7
Exports	<u>2.1</u>	<u>4.4</u>	<u>4.3</u>	<u>4.3</u>	<u>2.3</u>	<u>3.5</u>
Overall average	2.6	3.1	7.8	5.7	3.0	4.5

Source: MMC from company data.

*Includes car and all commercial vehicles and respondent tyre company results.

†OE supplies for fitment on assembly lines.

‡These are parts remanufactured for car makers resulting from an exchange.

§71 per cent of the gross profits earned during the five years 1986 to 1990 related to car parts and the balance to commercial vehicle parts.

¶Net profit before interest and tax.

5.24. Table 5.6 shows that over the five years component manufacturers incurred net losses on sales of OE supplies to car and commercial vehicle manufacturers whereas sales of replacement parts earned a net margin of 13.2 per cent and replacement parts were the major contributors to overall profit. Component manufacturers are dependent on the United Kingdom aftermarket for replacement parts for the viability of their overall motor vehicle parts business.

Analysis of component manufacturers' replacement parts business by trade channel

5.25. Table 5.7 analyses the replacement parts business segment shown in Table 5.6 for the years 1989 and 1990 only. Many companies, at this level of segmentation, could only estimate the gross and net margins.

TABLE 5.7 Respondent component manufacturers-motor vehicle replacement parts: analysis of turnover, gross and net margin by selected trade channels for the years 1989 and 1990*

	1989			1990		
	Turnover £m	Gross margin %	Net margin %	Turnover £m	Gross margin %	Net margin %
United Kingdom sales to:						
Car suppliers	109	33.3	16.3	109	31.3	12.8
Independent distributors	267	34.3	13.2	274	33.3	10.5
All other channels	<u>144</u>	<u>34.4</u>	<u>14.3</u>	<u>160</u>	<u>32.8</u>	<u>10.9</u>
	520	34.1	14.1	543	32.7	11.0

Source: MMC from company data.

*Includes respondent tyre company results.

5.26. Some of the main reasons given to us by component manufacturers to explain why high net margins were earned on RE sales to car suppliers (16.3 per cent in 1989 and 12.8 per cent in 1990) compared with low net margins or losses arising on OE sales (see Table 5.6) were:

- (a) research and development costs are absorbed against OE sales to car suppliers;
- (b) the level of infrastructure support given in manufacturing is much higher as quality administration and control procedures are subject to stringent car manufacturers' audit and these are less intense in the aftermarket;
- (c) the structure within the industry, whereby pressure from car suppliers because of the high and progressive level of competition (particularly Japanese) forces OE prices down and is balanced by higher prices charged in the aftermarket; and
- (d) the relatively low working capital required in the OE market sector, where forward scheduling is practised by car suppliers, sales are in packaged units and deliveries are largely direct from production.

5.27. Although turnover increased, net margins in the trade channels fell in 1990 from 1989 levels. A similar pattern is shown in the turnover and net margins of OE supplies and remanufactured parts in Table 5.6 (except for OE supplies gross margin in 1990). Net margins on RE sales to car suppliers are somewhat higher than net margins on sales to independent distributors in both 1989 and 1990.

Analysis of motor vehicle parts by segment-non-tyre companies

5.28. Appendix 5.1 restates the results shown in Table 5.6 after deducting all figures which relate to the results of tyre manufacturers as the tyre companies have a completely separate distribution system.

5.29. As shown in Appendix 5.1, the turnover of the non-tyre companies over the five years 1986 to 1990 of £6,310.9 million is 84.9 per cent of the total component manufacturers' turnover of £7,432.2 million shown in Table 5.6; and the total net profit of the non-tyre companies of £267.8 million is 80.0 per cent of the total net profit of the component manufacturers of £334.8 million. The exclusion of tyre companies' results does not significantly alter the industry picture.

Car suppliers

Results

5.30. There are over 40 car suppliers engaged in the wholesaling of car parts within the United Kingdom. We obtained financial information on parts from 35 of these who represented 99.92 per cent of car registrations in 1990. (This information was obtained from these suppliers at the same time as we

obtained other information from them to prepare our report on the *Supply of new motor cars in the United Kingdom.*)

5.31. For our analysis we concentrated on the 17 companies which each hold more than 1 per cent of the cars market (measured by number of cars registered) in 1990. We divided these suppliers into three groups:

- (a) the five major companies with manufacturing plants in the United Kingdom (Ford, Vauxhall, Rover, Peugeot and Nissan Manufacturing) which in aggregate accounted for some two-thirds of new cars registered in the United Kingdom in 1990, some of which were manufactured and some imported ('the manufacturers');
- (b) the six importers of new cars into the United Kingdom which each held more than 1 per cent of the market (measured by number of cars registered) in 1990 and which were owned by their supplier (Renault, Fiat, Citroën, BMW, Mercedes-Benz, Honda) ('the tied importers'); and
- (c) the six importers of new cars into the United Kingdom which each held more than 1 per cent of the market (measured by number of cars registered) in 1990 and which were financially independent of their supplier (Nissan UK, VAG (UK), Volvo, Toyota, Motor Vehicle Imports Ltd and Mazda) ('the independent importers').

Collectively these 17 companies are referred to as the 'major' companies and accounted for almost 95 per cent of the market (measured by number of cars registered) in 1990.

5.32. Set out in Table 5.8 are the results for the 35 companies which responded to our questionnaire segmented between cars, parts and other. This table shows the overall results of the industry and includes turnover, gross profit, net profit before interest and tax, average capital employed, gross margin on turnover, net margin on turnover and return on capital employed (ROCE). It will be seen from Table 5.8 that turnover is dominated by cars and, of the profits generated, cars contribute the major part except in 1986 and 1990. The results may be compared with those of the majors shown in Table 5.9.

5.33. It was put to us that the sale of replacement parts is an integral part of the car suppliers' overall businesses, which they consider to be essential to provide the necessary after-sales support to the end-users of their new cars. Both the manufacturers and importers stated that they would be unable to sell their cars without providing a full parts service as well and that the view taken of owning and running a car should be based on that of 'lifetime' costs. Thus it would be necessary to consider the costs of parts and servicing, as well as purchase of a car, as one total package.

5.34. In addition, when segmenting their total operations between cars, parts and other activities there were problems in allocating certain 'shared' costs, for example research and development costs. As a result, the internal allocation of costs would not necessarily reflect the pattern of benefit to the elements of the business. An example of this would be marketing costs, which often formed a significant part of total overhead costs. Marketing costs were generally allocated to cars, as most marketing was for cars. However, the companies put it to us that parts sales benefit directly from the marketing of cars and their subsequent sales, but it was very difficult to allocate a part of the cost of the marketing effort. It was put to us that estimates of ROCE were particularly subject to reservations in that the identification of relevant assets is particularly difficult when a company which operates an integrated business is asked separately to identify different activities such as cars and parts; and where capital employed in the parts business has to be derived from estimates; ROCE was therefore likely to be unreliable when applied to a discrete element of an integrated manufacturing and wholesaling operation and no reliable comparison could be drawn between results for cars and for parts on the basis of ROCE.

5.35. We recognise the practical difficulties of cost allocation. We note that suppliers have provided figures they regard as providing the breakdown requested with the exception of certain unallocated costs, eg the marketing costs mentioned above. Two major car suppliers told us that if they had allocated car marketing costs to car parts their net margins on car parts would have been reduced by about two percentage points, ie by about 15 per cent overall. A similar reduction would be expected in net profits and ROCE figures attributed to car parts as shown in Table 5.9. We consider it necessary to examine as closely as possible the subject matter of our reference although we recognise that the results must be interpreted bearing in mind the various reservations noted above.

TABLE 5.8 Car suppliers-overall results for total industry*-motor vehicles analysis by cars, parts and other

	<i>£ million</i>					
	1986	1987	1988	1989	1990	<i>Total 1986 to 1990</i>
<i>Turnover</i>						
Cars	9,328	11,393	13,879	15,853	15,794	66,247
Parts	1,143	1,352	1,575	1,721	1,866	7,657
Other†	<u>4,502</u>	<u>4,354</u>	<u>4,847</u>	<u>5,670</u>	<u>5,836</u>	<u>25,209</u>
Total	14,973	17,099	20,301	23,244	23,496	99,113
<i>Gross profit</i>						
Cars	920	1,275	1,773	1,958	1,567	7,493
Parts	349	439	533	584	627	2,532
Other†	<u>335</u>	<u>406</u>	<u>601</u>	<u>709</u>	<u>676</u>	<u>2,727</u>
Total	1,604	2,120	2,907	3,251	2,870	12,752
<i>Net profit before interest and tax</i>						
Cars	(8)	339	659	577	146	1,713
Parts	136	205	271	275	282	1,169
Other†	<u>(264)</u>	<u>34</u>	<u>242</u>	<u>258</u>	<u>175</u>	<u>445</u>
Total	(136)	578	1,172	1,110	603	3,327
<i>Capital employed</i>						
Cars	2,238	2,457	2,816	3,622	4,413	15,546
Parts	399	413	442	528	638	2,420
Other†	<u>1,177</u>	<u>974</u>	<u>1,065</u>	<u>1,465</u>	<u>1,978</u>	<u>6,659</u>
Total	3,814	3,844	4,323	5,615	7,029	24,625
<i>per cent</i>						
<i>Gross margin</i>						
Cars	9.9	11.2	12.8	12.4	9.9	11.3
Parts	30.5	32.5	33.8	33.9	33.6	33.1
Other†	<u>7.4</u>	<u>9.3</u>	<u>12.4</u>	<u>12.5</u>	<u>11.6</u>	<u>10.8</u>
Overall margin	10.7	12.4	14.3	14.0	12.2	12.9
<i>Net margin</i>						
Cars	(0.1)	3.0	4.7	3.6	0.9	2.6
Parts	11.9	15.2	17.2	16.0	15.1	15.3
Other†	<u>(5.9)</u>	<u>0.8</u>	<u>5.0</u>	<u>4.5</u>	<u>3.0</u>	<u>1.8</u>
Overall margin	(0.9)	3.4	5.8	4.8	2.6	3.4
<i>ROCE‡</i>						
Cars	(0.4)	13.8	23.4	15.9	3.3	11.0
Parts	34.1	49.6	61.3	52.1	44.2	48.3
Other†	<u>(22.4)</u>	<u>3.5</u>	<u>22.7</u>	<u>17.6</u>	<u>8.8</u>	<u>6.7</u>
Total	(3.6)	15.0	27.1	19.8	8.6	13.5

Source: MMC from company data.

*This table includes exports of cars under the heading of 'Cars', except for Rover. Rover was unable to provide an analysis of the United Kingdom elements of its export business. Therefore its total export results are included within 'Other'. Exports of parts are included under the heading 'Parts'.

†'Other' includes commercial vehicles and parts for commercial vehicles and car-derived van parts, agricultural machinery, motor cycles, engines for marine and other non-car purposes, parts and components for car production lines and other items not related directly to cars and parts for replacement purposes.

‡Return on average capital employed.

5.36. Table 5.9 shows financial results of the major car suppliers for 1986 to 1990 segmented between cars and parts and other businesses. (These figures also appear in our report on the *Supply of new motor cars in the United Kingdom*.) The car parts operations of these companies are essentially wholesaling operations.

It was necessary for companies to estimate some figures to enable them to provide us with the required segmented information. The capital employed by these car suppliers in their parts business, shown in Table 5.9, has been derived from estimates provided by the car suppliers when responding to our financial questionnaire.

TABLE 5.9 The financial results for the 17 major car suppliers-motor vehicles, analysis by cars, parts and other

	<i>£ million</i>					
	1986	1987	1988	1989	1990	Total 1986 to 1990
<i>Turnover</i>						
Cars	8,274	9,999	12,264	14,092	14,056	58,685
Parts*	1,077	1,254	1,465	1,593	1,725	7,114
Other†	<u>4,245</u>	<u>4,065</u>	<u>4,517</u>	<u>5,300</u>	<u>5,439</u>	<u>23,566</u>
Total	13,596	15,318	18,246	20,985	21,220	89,365
<i>Gross profit</i>						
Cars	733	1,110	1,594	1,835	1,423	6,695
Parts*	325	404	490	531	570	2,320
Other†	<u>279</u>	<u>341</u>	<u>521</u>	<u>627</u>	<u>586</u>	<u>2,354</u>
Total	1,337	1,855	2,605	2,993	2,579	11,369
<i>Net profit before interest and tax</i>						
Cars	(74)	311	660	655	221	1,773
Parts*	120	181	241	240	246	1,028
Other†	<u>(286)</u>	<u>8</u>	<u>208</u>	<u>225</u>	<u>146</u>	<u>301</u>
Total	(240)	500	1,109	1,120	613	3,102
<i>Capital employed</i>						
Cars	1,980	2,118	2,428	3,188	3,937	13,651
Parts*	379	386	410	494	602	2,271
Other†	<u>1,136</u>	<u>927</u>	<u>1,020</u>	<u>1,420</u>	<u>1,917</u>	<u>6,420</u>
Total	3,495	3,431	3,858	5,102	6,456	22,342
<i>per cent</i>						
<i>Gross margin</i>						
Cars	8.9	11.1	13.0	13.0	10.1	11.4
Parts*	30.2	32.2	33.4	33.3	33.0	32.6
Other†	<u>6.6</u>	<u>8.4</u>	<u>11.5</u>	<u>11.8</u>	<u>10.8</u>	<u>10.0</u>
Overall margin	9.8	12.1	14.3	14.3	12.2	12.7
<i>Net margin</i>						
Cars	(0.9)	3.1	5.4	4.6	1.6	3.0
Parts*	11.1	14.4	16.5	15.1	14.3	14.5
Other†	<u>(6.7)</u>	<u>0.2</u>	<u>4.6</u>	<u>4.2</u>	<u>2.7</u>	<u>1.3</u>
Overall margin	(1.8)	3.3	6.1	5.3	2.9	3.5
<i>ROCE‡</i>						
Cars	(3.7)	14.7	27.2	20.5	5.6	13.0
Parts*	31.7	46.9	58.8	48.6	40.9	45.3
Other†	<u>(25.2)</u>	<u>0.9</u>	<u>20.4</u>	<u>15.8</u>	<u>7.6</u>	<u>4.7</u>
Total	(6.9)	14.6	28.7	22.0	9.5	13.9
<i>number</i>						
<i>Number of times capital turned over</i>						
Cars	4.2	4.7	5.1	4.4	3.6	4.3
Parts*	2.8	3.2	3.6	3.2	2.9	3.1
Other†	<u>3.7</u>	<u>4.4</u>	<u>4.4</u>	<u>3.7</u>	<u>2.8</u>	<u>3.7</u>
Total	3.9	4.5	4.7	4.1	3.3	4.0

Source: MMC from company data.

*Exports of parts. See note in Table 5.8.

†'Other' includes commercial vehicles, agricultural machinery, motor cycles, engines for marine and other non-car purposes, parts and components for car production and other items not related directly to cars and parts for replacement purposes.

‡Return on average capital employed.

5.37. We asked the 17 major suppliers to explain why there were relatively high margins on parts compared with cars. In addition to the general arguments set out in paragraphs 5.33 and 5.34, we were told by one supplier that in its case the ratio of sales to average capital employed is very different for cars and parts operations. One manufacturer stated that it would expect to earn higher margins on parts to compensate for the higher levels of capital (as a proportion of sales) tied up in the parts business. Cars and parts are businesses which have very different stocking requirements. The cars business is one involving the assembly of cars for rapid sale, while the parts business requires large stockholdings over long periods to ensure availability of replacement parts for a number of years after cessation of manufacture. The patterns of sale to the customer and customers' requirements lead to the differences in stockholding for cars and parts.

5.38. During the five years 1986 to 1990, gross margins on car part sales averaged 32.6 per cent, net margins 14.5 per cent and ROCE 45.3 per cent. This compares with the major companies' overall results of gross margins at 12.7 per cent, net margins at 3.5 per cent and ROCE at 13.9 per cent.

5.39. While the parts business was 8 per cent of the car suppliers' total turnover, it contributed some 20 per cent to overall gross profits and 33 per cent to overall net profits. This demonstrates the important contribution made by the car parts business to car suppliers' overall results.

5.40. Table 5.9 shows that, in gross and net margin terms, the parts business is less cyclical than the car suppliers' overall business.

5.41. Given the allocations, ROCE shown on the parts business is high relative to the total business. This results primarily from the higher net margins earned on the parts business, higher than on the cars business. In commenting on these results car suppliers drew attention to their arguments set out in paragraph 5.34, stating in particular that:

- (a) capital employed cannot be allocated accurately between cars and parts and the parts suppliers regard cars and parts as an integrated business; and
- (b) the allocation of shared costs, including research and development costs, between cars and car parts presents difficulties, for example for the reasons set out in paragraph 5.34, but some allocations of cost have been made by the companies.

5.42. Some factors tended to reduce the level of capital employed. In the case of United Kingdom manufacturers, a substantial part of the components sourced by Rover franchised dealers is supplied by Unipart, which bears the relevant capital employed, to that extent effectively reducing capital employed in Rover; Rover margins, however, benefit from profit-sharing arrangements from this business with Unipart. In the case of the tied importers, one of the companies reported no capital employed, the distribution of its parts in the United Kingdom being carried out by an associate. Further, the ROCEs of tied importers need to be treated with caution: the particular financial relationships between them and other companies in their group may influence the amount of capital reported to us as employed in the United Kingdom. The returns on capital of tied importers also depend on transfer prices set within the companies concerned.

5.43. Table 5.10 analyses the five-year results shown in Table 5.9 between United Kingdom manufacturers, independent importers and tied importers in total for 1986 to 1990. It also shows the number of times capital was turned over.

TABLE 5.10 **Car parts: analysis of the financial results of the 17 major car suppliers, 1986 to 1990**

	<i>United Kingdom manufacturers</i>	<i>Independent importers</i>	<i>Tied importers</i>	<i>Total</i>
Net margin (%)	12.2	15.9	19.7	14.5
ROCE (%)	36.3	40.3	110.2	45.3
Number of times capital turned over	3.0	2.5	5.6	3.1

Source: MMC from company data.

5.44. The figures in Table 5.10 show that the lowest net margins and rates of return reported to us were those of the United Kingdom manufacturers.

Wholesaling results of the car parts segment only

5.45. Table 5.11 analyses the parts results shown in Table 5.9 between the United Kingdom manufacturers, independent importers and tied importers for wholesaling operations only.

TABLE 5.11 Results for the 17 major car suppliers; car parts wholesaling only*

	<i>£ million</i>					
	1986	1987	1988	1989	1990	<i>Total 1986 to 1990</i>
<i>Turnover</i>						
United Kingdom manufacturers	678	762	864	912	985	4,201
Independent importers	219	270	322	359	385	1,555
Tied importers	<u>180</u>	<u>222</u>	<u>275</u>	<u>312</u>	<u>335</u>	<u>1,324</u>
Total	1,077	1,254	1,461	1,583	1,705	7,080
<i>Gross profit</i>						
United Kingdom manufacturers	206	251	305	327	364	1,453
Independent importers	73	87	98	107	121	486
Tied importers	<u>50</u>	<u>64</u>	<u>83</u>	<u>94</u>	<u>89</u>	<u>380</u>
Total	329	402	486	528	574	2,319
<i>Net profit before interest and tax</i>						
United Kingdom manufacturers	63	97	136	131	147	574
Independent importers	39	47	52	52	57	247
Tied importers	<u>32</u>	<u>44</u>	<u>58</u>	<u>65</u>	<u>58</u>	<u>257</u>
Total	134	188	246	248	262	1,078
<i>per cent</i>						
<i>Gross margin</i>						
United Kingdom manufacturers	30.4	32.9	35.3	36.0	37.0	34.6
Independent importers	33.3	32.2	30.4	29.8	31.2	31.2
Tied importers	<u>27.8</u>	<u>28.8</u>	<u>30.2</u>	<u>30.1</u>	<u>26.6</u>	<u>28.7</u>
Overall	30.5	32.1	33.3	33.4	33.6	32.8
<i>Net margin</i>						
United Kingdom manufacturers	9.3	12.7	15.7	14.4	14.9	13.7
Independent importers	17.8	17.4	16.1	14.5	14.8	15.9
Tied importers	<u>17.8</u>	<u>19.8</u>	<u>21.1</u>	<u>20.8</u>	<u>17.3</u>	<u>19.4</u>
Overall	12.4	15.0	16.8	15.7	15.4	15.2

Source: MMC from company data.

*The results in this table exclude external retail sales which are included in the overall results shown in Table 5.9. Adjustments have been made to eliminate internal transfers on consolidation and in respect of some minor items.

5.46. Gross margins of the United Kingdom manufacturers increased from 30.4 per cent in 1986 to 37.0 per cent in 1990. This compares with a decline in the gross margins of the independent importers from 33.3 per cent in 1986 to 31.2 per cent in 1990 and tied importers from 27.8 per cent in 1986 to 26.6 per cent in 1990.

5.47. Although the independent and tied importers earned generally lower gross margins from the sale of parts than did manufacturers, Table 5.11 shows that their net margins over the five years 1986 to 1990 were better than those of the manufacturers. This may be a reflection of the difficulty of allocating overheads to segments of the businesses of the manufacturers; it may also reflect different overhead cost structures and, in the case of tied importers, the level of transfer prices.

Restatement of the major car suppliers' wholesale parts business at constant 1990 prices using the PPI

5.48. Table 5.12 restates the figures for the turnover, gross and net profits before interest and tax of the major car suppliers' wholesale parts business (Table 5.11) adjusted to constant 1990 prices using the PPI. The reasons for selecting this Index are set out in paragraph 5.22.

5.49. Table 5.12 shows that the turnover of the car suppliers' wholesale parts business increased from year to year over the period 1986 to 1990. Over the five years 1986 to 1990, the net profits of car suppliers increased in real terms.

TABLE 5.12 **The 17 major car suppliers' wholesale parts business: turnover, gross and net profit, restated at constant 1990 prices (using the PPI)***

	<i>£ million</i>					
	1986	1987	1988	1989	1990	Total 1986 to 1990
<i>17 major car suppliers' wholesale parts business</i>						
Turnover	1,301.1	1,458.9	1,626.2	1,676.1	1,705.0	7,767.3
Gross profit	397.4	467.7	541.0	560.1	574.0	2,539.2
Net profit before interest and tax	161.9	218.7	273.8	262.6	262.0	1,179.0
<i>Source: MMC.</i>						
*PPI-All Items (1985 = 100)	104.3	108.3	113.2	119.0	126.0	

Franchised dealers

5.50. In the course of our inquiry into the supply of new motor cars, we sent a financial questionnaire to a sample of new car dealers which held franchises for 15 out of the major 17 car suppliers in the United Kingdom. For this survey, only dealers with sales of 200 or more new cars in 1989 were approached. In the lists of dealers supplied to the MMC by the 15 car suppliers, approximately 2,500 were shown as selling 200 or more new cars in 1989. From these, a random sample of 500 was chosen to receive the questionnaire.

5.51. We received just less than 150 replies that we were able to use. Response varied by franchise held, with the best response rate from the franchises with the greatest number of dealers, such as Ford, Vauxhall, Rover and Peugeot.

Summary of sources of supply

5.52. Table 5.13 shows a summary of sources of supply of parts to franchised dealers for the nine months to 30 September 1990. We asked the dealers surveyed to provide a breakdown of their sources of car parts whether from car suppliers themselves, direct from component manufacturers, from their own dealer network, or from other dealers or factors. We requested this breakdown for the nine months to 30 September 1990 which was a sufficiently long period for our purpose, and which was the most up to date period covered by our financial questionnaire. Dealers' responses are summarised in Table 5.13.

TABLE 5.13 Car parts: summary of sources of supply to franchised dealers for the nine months up to 30 September 1990

per

cent

<i>Franchise</i>	<i>Car suppliers</i>			<i>Component manufac- turers§</i>	<i>Other dealers</i>	<i>Factors</i>	<i>Other</i>	<i>Shares of</i>	
	<i>Direct to dealers*</i>	<i>Franchised dealers own network†</i>	<i>Other car parts‡</i>					<i>total</i>	<i>supply %</i>
Ford	70.0	17.2	0.5	0.7	4.4	6.8	0.4	100	25.3
Vauxhall	88.1	3.5	1.3	0.1	3.7	2.6	0.7	100	11.4
Rover¶	55.9	7.7	12.5	15.7	2.7	4.3	1.2	100	26.8
Peugeot	84.9	5.5	2.2	1.6	4.1	1.0	0.7	100	5.4
Other franchises	<u>89.6</u>	<u>2.5</u>	<u>2.8</u>	<u>0.2</u>	<u>0.9</u>	<u>2.0</u>	<u>2.0</u>	<u>100</u>	<u>31.1</u>
	75.2	7.9	4.6	4.5	2.8	3.8	1.2	100	100

Source: MMC survey.

*Car suppliers' supply of car parts to franchised dealers.

†Consists of intra-dealer transfers, the bulk of which are of car parts supplied into the network by the car suppliers.

‡Supply of 'all-makes' and other non-branded parts by car suppliers to franchised dealers.

§Supply of car parts by component manufacturers.

¶The figures shown for Rover under car suppliers substantially represent supplies from Unipart, which are regarded by Rover franchised dealers as supplies from their car supplier.

5.53. The pattern of dealership sourcing shown in Table 5.13 reflects the mix of dealers responding to our questionnaire. It shows that the main suppliers of car parts to franchised dealers were the car suppliers. Some 88 per cent of all parts (including parts for cars other than the supplier's cars, ie 'all-makes' parts) supplied to the respondent dealers came from the car suppliers, whilst only 4.5 per cent of parts were supplied directly to respondent dealers by the component manufacturers themselves. Our study showed that only Rover dealers source a significant amount of parts directly from component manufacturers, whilst the other franchised dealers source their parts almost exclusively from the car suppliers including from within dealer networks. Of the shares of the total supply of parts accounted for by the respondent dealers, over half related to Ford and Rover.