4 The relevant markets

Contents

Page

Introduction

4.1. This chapter sets out the general market background to the proposed acquisition by Cendant of RACMS. It first describes the various ways in which breakdown services are supplied, who buys them and who supplies them. Then, after considering how the relevant market for breakdown services may be defined, it sets out the market shares of the various suppliers and goes on to consider the nature of competition between them. Unless otherwise stated, the account of the market set out in this chapter is concerned with the supply of breakdown services for light vehicles (that is, vehicles with a gross laden weight of up to 3.5 tonnes).

Insured breakdown services and breakdown organizations

4.2. The provision of insured breakdown services, as we use the term, means the effecting and carrying out of insurance policies that, in return for fixed premiums, ensure that eligible motorists receive the following benefits:

(a) access to a telephone call centre where breakdown and other membership services can be requested and arranged; and

(b) breakdown services, that is roadside assistance, recovery of the vehicle where necessary and related services in the event of a breakdown,

at no further cost to the motorist or the insured (other than the cost of parts and fuel). Cover is provided for a fixed period, most commonly one year. As we use the term, insured breakdown services also includes the supply of organized POU breakdown services. Under such schemes, which are used mostly by operators of motor car fleets and goods vehicles over 3.5 tonnes, prior arrangements are set in place that enable the driver of the vehicle to obtain breakdown services through a call centre as and when needed; the breakdown service itself is paid for separately when used, often at pre-negotiated rates.

4.3. The nature and scope of these insurance policies vary considerably, for example as to the parties involved, the person entitled to call for breakdown services and the extent of the services provided. For example:

- the insurance cover may be for a specified vehicle (that is, covering any driver using the insured vehicle) or for a specified individual (that is, covering the insured person in any eligible vehicle in which he/she is travelling);
- the breakdown services available under a personal-based policy can be limited to the insured person or can extend to other members of the family;
- the policy may provide for assistance when needed at or near the motorist’s home as well as during journeys away from home;
- the policy may provide for recovery to the motorist’s home or other destination, an overnight stay, a replacement hire car or onward travel by some other means;
- the policy may exclude certain types of breakdown (for example, flat batteries) or limit the number of call-outs that can be made each year without extra charge;
- the policy can be purchased by a company with the benefits being available to an employee, customer or lessee of that company when driving its vehicles;
- the policy can be provided by a motor car manufacturer with the benefits being available to buyers of its new vehicles (and, less commonly, for used cars); or
- the policy can be provided by an insurance company with the benefits being available to holders of its insurance policies covering other eventualities.

4.4. It should be noted that the term 'breakdown' in the context of this industry does not just mean a vehicle failure of some sort (for example, electrical or mechanical failure). It also covers a number of human failings, ranging from lost car keys and empty fuel tanks to the reluctance or inability to do simple repair jobs such as changing a wheel. Insured breakdown services may also provide for roadside assistance and recovery at the scene of an accident or incident of vandalism that has immobilized the vehicle.

4.5. The call-centre element (see paragraph 4.2*(a)*) is the facility to receive and log incoming calls for assistance, confirm the caller's identity and entitlement, identify the nature of the problem and location of the vehicle, and arrange for the dispatch of a vehicle to provide roadside assistance or recovery. Roadside assistance is the attendance at the roadside by a mechanic, using an assistance or recovery vehicle, to diagnose and, where possible, repair the fault. The aim is to get the broken-down vehicle moving again wherever possible. Where this is not possible, the vehicle is recovered to a garage for repair or, depending on the level of cover, to another destination agreed with the motorist. The roadside assistance element may be provided by a liveried patrol force (as is the case with the AA and RACMS) or by garage contractors.

4.6. Except when roadside assistance is normally supplied through the insurer's own workforce, the insurer must be an authorized insurance company or a member of Lloyd's (see Appendix 4.1)

4.7. We refer to organizations that sell insured breakdown services as breakdown organizations. As well as acting as the insurer, a breakdown organization may itself provide the call centre and arrange for breakdown services to be sent to the motorist when required. Alternatively, a breakdown organization may procure a separate insurance company (which can be a company in the same group) to underwrite the policy. We would not regard the insurance company as a breakdown organization in those circumstances as it would not be marketing the product. A breakdown organization can also contract out the call-centre operation and the arrangement of the breakdown assistance. However, we do not regard as a breakdown organization a financial institution that simply sells on to its customers insured breakdown services that it effectively acquires wholesale from a breakdown organization; rather, we regard such financial institutions as intermediaries (see paragraph 4.22). We regard Direct Line, which began to market its own breakdown service in May 1998 (see paragraph 5.43), as a breakdown organization as, although it contracts out its call-centre operations and contractor network management to Europ Assistance, it does not acquire a complete insurance breakdown package from Europ Assistance.

4.8. In the context of breakdown organizations the term 'member' is often used to refer to subscribers and other motorists who are eligible to receive the benefits of the insured breakdown services provided by those organizations. We use this term in the same way (see paragraph 3.4).

Categories of service

4.9. The range of services offered by breakdown organizations to their direct retail members varies considerably. For example, the services provided by RACMS are now packaged in two main categories: *(a) Standard Cover*, which provides for roadside assistance anywhere in the UK (including at home) and, if needed, recovery and transport to a destination in the UK; and *(b) Individual Cover*, which provides for roadside assistance when away from home and local recovery, with various other levels of service available at extra charge. Green Flag offers its direct retail customers a choice of five different levels of cover ranging from *Recovery Only* (neither the AA nor RACMS offers an equivalent level of service) to *Total Protection*. The AA offers four distinct levels of service, namely *Option 100* to *Option 400*. Further details of the AA's, RACMS's and Green Flag's current breakdown services and direct retail prices are set out in Appendix 4.2. Other examples include Autonational's *Roadside Superservice*, *Recovery Superservice*, *Home Superservice* and *Caravan Superservice* and Direct Line's *Rescue*, *Rescue Plus*, *Recovery* and *Recovery Plus*. These various levels of service are followed broadly, but with variants, in other sales channels served by these companies and by other breakdown organizations in their various sales channels.

Insured and non-insured breakdown services

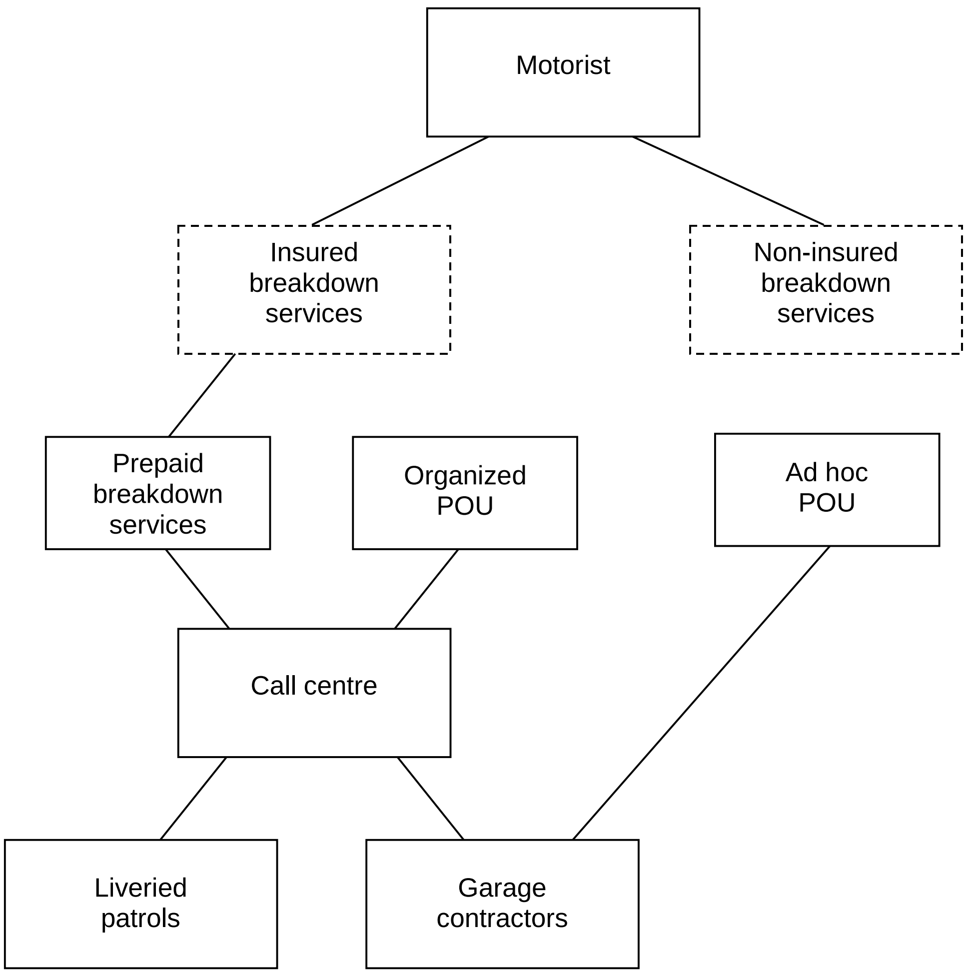
4.10. Broadly, motorists fall into two groups (see Figure 4.1):

(a) those covered by insured breakdown services; and

(b) those who do not subscribe to, and are not otherwise covered by, any insured breakdown service and who make their own arrangements for roadside assistance as and when needed (we refer to these as non-insured motorists).

FIGURE 4.1

Organization of breakdown services in the UK: an overview



Source: MMC.

4.11. Non-insured motorists are potential purchasers of insured breakdown services and may be attracted into the market if they consider that a particular offer represents good value for money and is affordable. Meanwhile, when their vehicles break down, they may call a breakdown organization and apply to join it straight away, they may call out the services of a garage contractor, or they may make other arrangements. The size of the non-insured sector, currently about one-third of all licensed light vehicles, is therefore important in understanding the demands facing the garage contractors who supply such services to both insured and non-insured motorists.

Sales channels

4.12. The origins of the RAC group and the AA lie in the very early days of motoring. Almost from the outset, they have enrolled motorists as individual and personal members and have encouraged annual renewals. For most of the last 80 years, the choice facing individual motorists wanting breakdown cover lay between these two organizations.

4.13. This situation continued during the period of very considerable growth in car ownership in the 1950s, 1960s and well into the 1970s, with a correspondingly large growth in the number of members of the AA and the RAC group. However, during the last 15 or so years and particularly during the last 10 years, the breakdown services market has seen significant changes. Notably, new suppliers have entered (see, for example, Table 4.6) and new routes to market have emerged that do not rely on direct retail sales to individual motorists.

4.14. There are now two broad forms of supply of insured breakdown services (see Figure 4.2):

(a) services sold by breakdown organizations directly to individuals, which we refer to as direct retail sales; and

(b) services sold by breakdown organizations to or via other bodies, which in turn sell them or otherwise make them available to their own individual customers, members or employees: these may be thought of as indirect sales by breakdown organizations.

With direct retail sales, the breakdown organization sets the retail prices for the services and has direct access to and control over the customer database. Conversely, with indirect sales the intermediary body is primarily responsible for setting the retail price (where applicable) and controls the database of end-users. It should be noted, however, that the dividing line between direct and indirect sales is not always clear-cut.

4.15. As a result of these developments, the market has become much more complex. There has been considerable growth in the number of different organizations marketing insured breakdown services. Indirect sales by breakdown organizations are described more fully below under the following headings: motor manufacturer schemes; fleet schemes; and financial institutions and affinity groups. The last category may be further divided into two types of schemes: intermediary and mandatory (see paragraph 4.22). The number of suppliers has also increased, with some of the newer breakdown organizations specializing in supplying their services through particular routes to market.

Motor manufacturer schemes

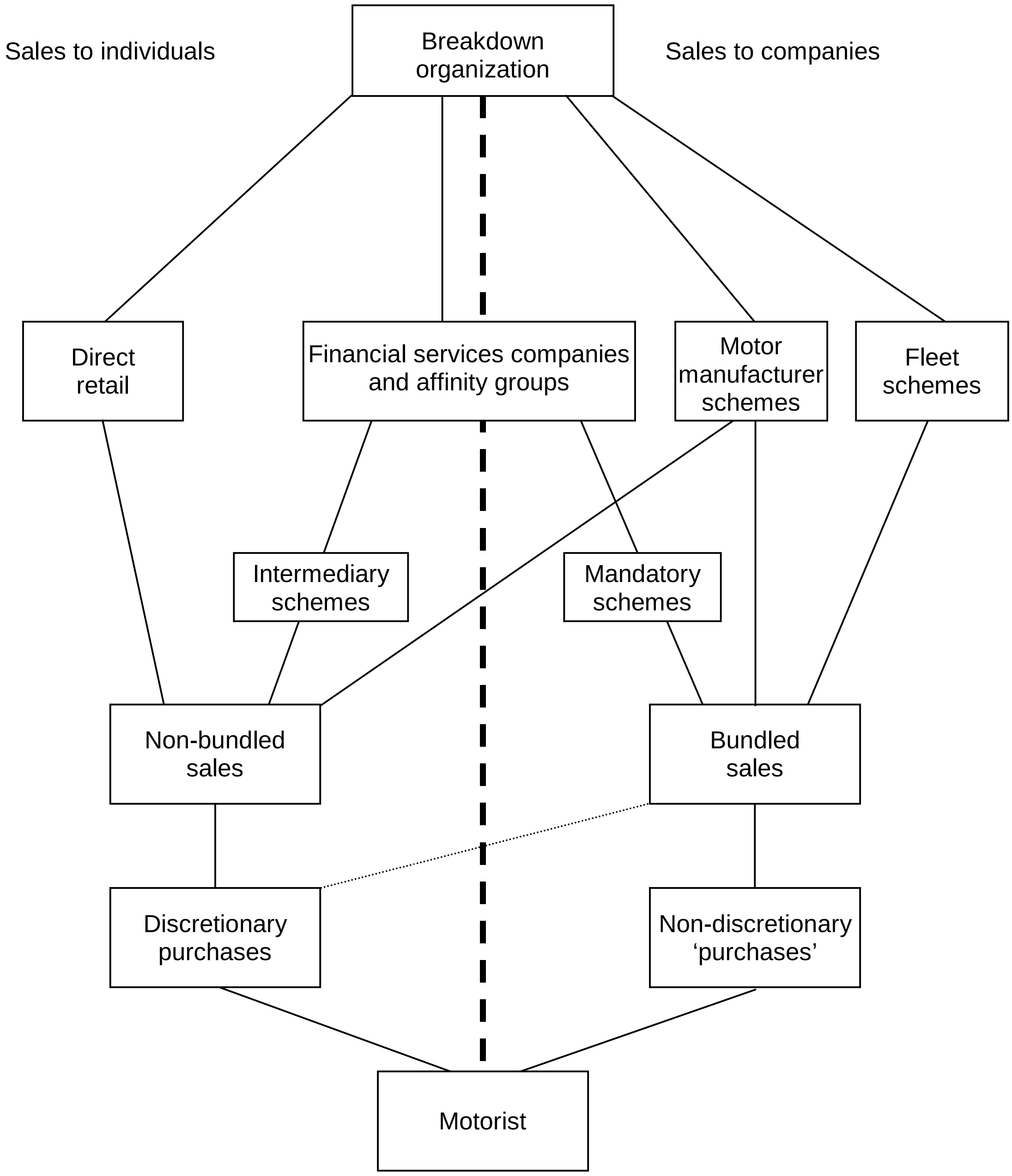
4.16. The supply of insured breakdown services to motor car manufacturers, which provide the services to buyers of their new or, less commonly, used cars as part of a package with no separately identified price, began with the AA's deal with Rover in 1976. Particularly during the period 1987 to 1990, such schemes grew quickly as a proportion of the market (see Table 4.9). In that period these schemes were seen by the motor car manufacturers as an added-value element aimed at strengthening their competitive position between themselves and quickly became available from most motor car manufacturers.

4.17. The level of sales of insured breakdown services to motor car manufacturers is highly dependent on the number of new cars sold each year (as Figure 4.3 shows, annual sales of new light vehicles,[1] of which cars are the main constituent, are cyclical). Other relevant factors, however, are the period for which the breakdown services are provided (this was originally one year but in some cases it now extends to two or three years) and the inclusion of used cars sold through the dealers of the motor car manufacturers.

[1]For the definition of 'light vehicles' see paragraph 4.52.

FIGURE 4.2

Insured breakdown services: an overview of the sales channels



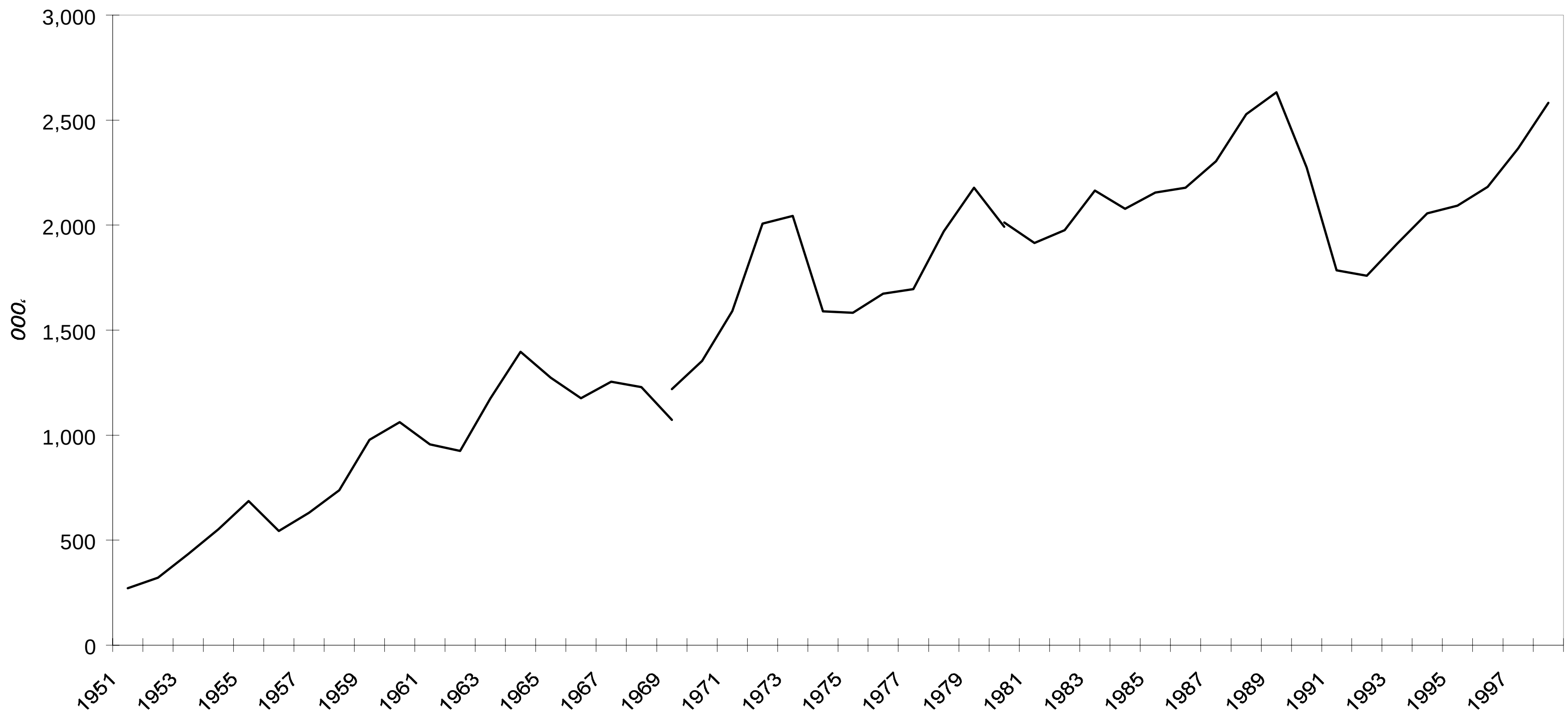
Source: MMC.

4.18. More recently, motor car manufacturers have used the motor manufacturer schemes to extend their relationship with new car buyers in advance of the next purchase, to collect data on the vehicle faults that cause call-outs and to seek to encourage motorists in need of assistance to use their authorized dealer network and to use manufacturer-supplied parts.

4.19. Motor manufacturer schemes enable breakdown organizations to secure blocks of business as a result of single agreements, thus reducing customer acquisition costs. They may also present opportunities for breakdown organizations, such as the AA and RACMS, to convert at least a part of such annual new business into direct retail sales when the period of cover provided under the motor manufacturer scheme ends, or, as in the case of Mondial, to continue to provide cover but with the motor manufacturer acting as an intermediary. However, the prices paid to breakdown organizations per member recruited under motor manufacturer schemes themselves are generally far lower than direct retail prices (see Table 4.27).

FIGURE 4.3

Light vehicles registered for the first time, Great Britain, 1951 to 1998



Source: MMC, based on data published in *Transport Statistics Great Britain 1998 Edition*, Department of the Environment, Transport and the Regions (DETR), September 1998.

Note: There are breaks in the published data series in 1969, 1980 and 1995 because of changes in taxation classifications. The figure for 1998 is an MMC estimate based on the latest available data.

4.20. The effect of motor manufacturer schemes is to siphon off motorists who would otherwise have been candidates for direct retail membership of a breakdown organization. The extension of motor manufacturer schemes from one to two or three years and to cover used cars may also cut into direct retail sales volumes. These schemes represent a break in the continuity of membership of a direct retail or intermediary scheme that may prompt the motorist to consider, when the motor manufacturer scheme expires, whether to renew the previous membership or to join a different breakdown organization. However, the AA and RACMS told us that some motorists acquiring breakdown cover automatically, as a result of buying a new car, nevertheless chose to continue membership of their existing breakdown organization. In addition, both the AA and RACMS offer to carry forward any unused portion of personal memberships during the period for which the motorists concerned are covered by such schemes.

Fleet schemes

4.21. Fleet customers are organizations that acquire and operate vehicles for use in their or their clients' businesses. A high proportion of new car sales in the UK are for fleet use and, we were told, a large number of cars in such fleets tend to be covered under motor manufacturer schemes. For fleet vehicles not covered by such schemes, or in cases where the fleet operator wants supplementary breakdown services, fleet operators often buy an organized POU breakdown scheme which provides only for the call centre and call-out service; there is no separate insurance cover since the fleet operators effectively self-insure.

Financial institutions and affinity groups

4.22. Two other groups of organizations have emerged in recent years as important sales channels for insured breakdown services: financial institutions, such as insurance companies, banks and building societies; and affinity groups, such as the National Trust, staff associations or enthusiasts' clubs for particular car marques. From the motorist's viewpoint, sales through such channels are of two types (see also Figure 4.2):

(a) *intermediary schemes*, where a financial institution or affinity group effectively acquires the insured breakdown service wholesale from a breakdown organization and markets it as a separate product, normally as part of a wider portfolio of products or membership benefits. In selling these services on to individual motorists, these intermediaries are in competition with the breakdown organizations themselves in the pursuit of direct retail sales; and

(b) *mandatory schemes*, where a financial institution effectively buys the insured breakdown service wholesale and incorporates it with motor insurance as one bundled service. There are few such schemes of any significance (those operated by Prudential Insurance, Norwich Union, RSA and Zurich are believed to be the principal examples).

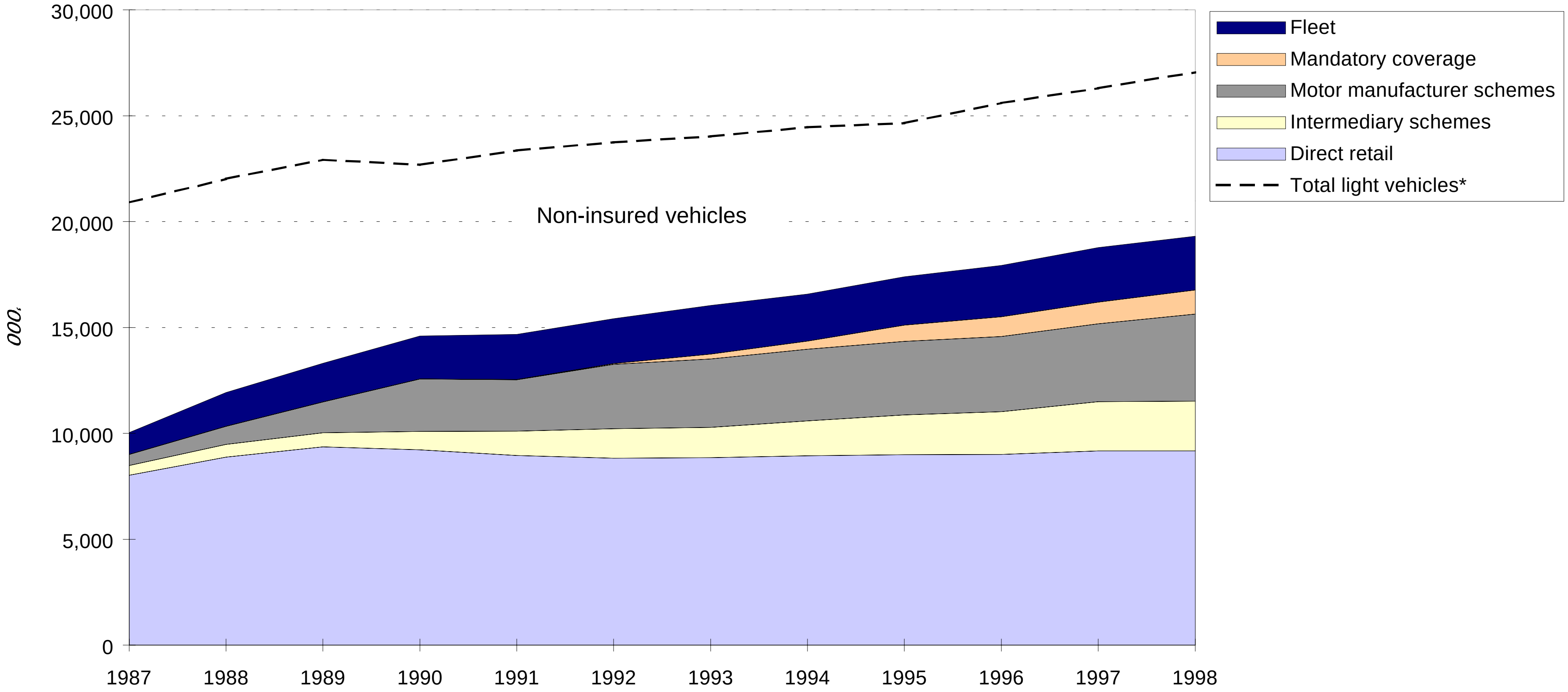
4.23. As with the motor manufacturer schemes, some of the intermediary and mandatory breakdown service schemes were originally perceived as an added-value element aimed at strengthening the intermediary's competitive position against rival organizations. The data in Tables 4.10 and 4.16 show that Green Flag has been particularly successful in developing this form of supply.

Changing structure of sales channels

4.24. About 78 per cent of the volume growth in sales of insured breakdown services over the last ten years has come from motor manufacturer, intermediary and mandatory schemes (see Figures 4.4 and 4.5). In 1988 these three types of scheme covered about 1.5 million vehicles (about 12 per cent of all vehicles covered by insured breakdown services) (see Table 4.8). By 1998 the number had grown to about 7.6 million (or just over 38 per cent of all vehicles covered). In contrast, during the same period the number of vehicles covered by direct retail sales rose from about 8.9 million to about 9.7 million, declining as a proportion of all vehicles covered from about 74 per cent to about 49 per cent (see Table 4.9).

FIGURE 4.4

Number of light vehicles covered by insured breakdown services in the UK by sales channel, 1987 to 1998

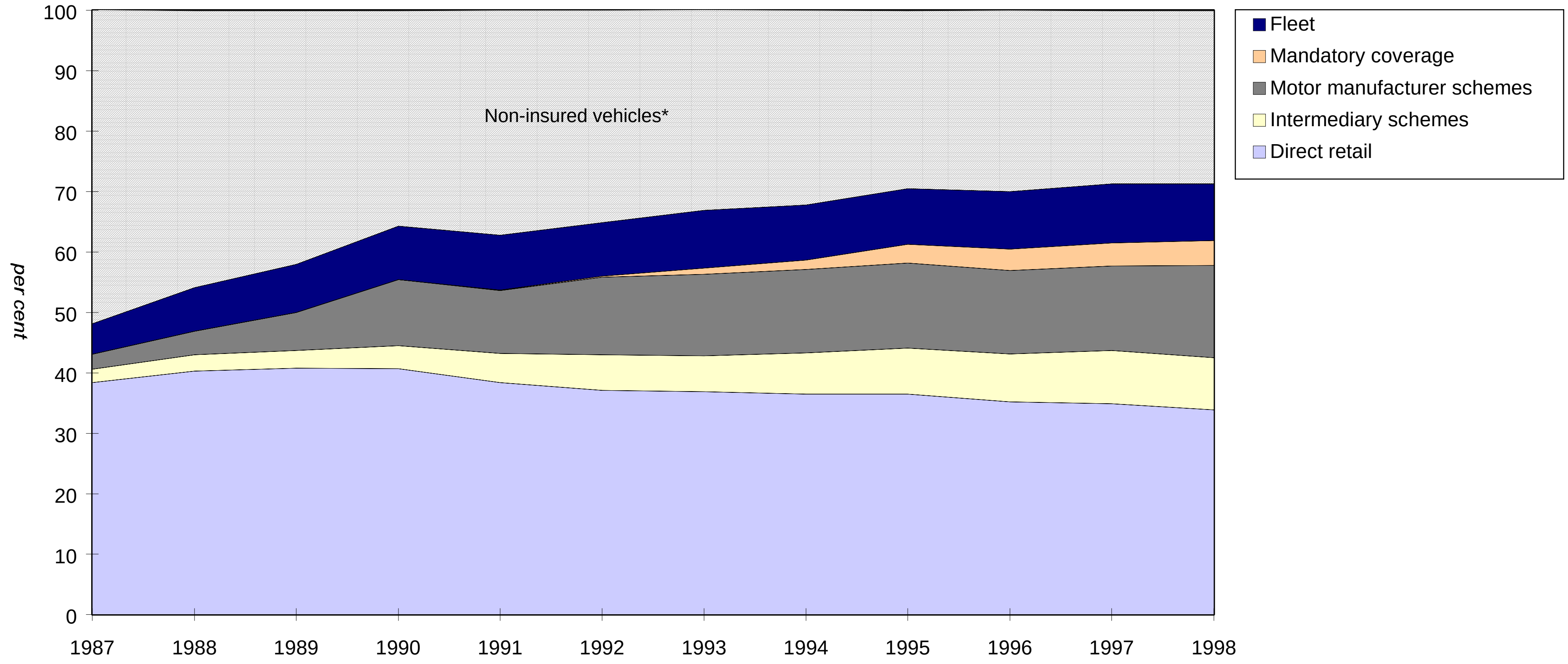


Source: MMC, based on data from DETR, DoE(NI) and the suppliers.

*Licensed in the UK as at 31 December each year.
Note: The number of fleet vehicles includes those covered by organized POU schemes.

FIGURE 4.5

Proportion of light vehicles licensed in the UK covered by various insured breakdown services, 1987 to 1997



Source: MMC, based on data from DETR, DoE(NI) and the suppliers.

*Market research shows that about 60 per cent of motorists are members of motoring organizations (see Appendix 4.3, paragraphs 7 and 8). However, this figure may not include all motorists who are covered by motor car manufacturers' or mandatory schemes and who, perhaps, are not fully aware of this. Against this, there are also some motorists who are covered by more than one breakdown organization (see also paragraph 4.56).

Demand for these services

4.25. The demand for breakdown services, both insured and uninsured, is influenced by several factors. These include the total number of vehicles on the road, the number of new vehicles sold each year, how susceptible these vehicles, both old and new, are to breaking down and the inclination and ability of motorists to buy and use insured breakdown services. This last is affected not only by the products available and the prices charged, but also by quality of service provided, motorists' expectations and their satisfaction with the services if used.

Trends in vehicle numbers, age and use

4.26. At the end of 1997 there were 27.7 million vehicles licensed for use on public roads in the UK (see Table 4.1). Of these, some 24.6 million (or about 89 per cent) were in the private and light goods taxation group. Only about 2 per cent of the vehicles licensed at that date were classified as goods vehicles of 3.5 tonnes or more.

4.27. The number of vehicles licensed for use on public roads has been rising inexorably over the last 40 years. In particular, the number of light vehicles on the roads of Great Britain increased from about 5.8 million in 1958 to about 25.3 million by 1998 (see Figure 4.6). An additional 1.5 million cars are forecast to be on public roads by the end of 2000.

TABLE 4.1 **UK: motor vehicles licensed as at 31 December 1997**

	Number of vehicles			
	'000		*%*	
By taxation group				
Private and light goods		24,574		88.8
Of which: Cars	22,216		80.3	
Other vehicles	2,358		8.5	
Motorcycles, scooters and mopeds		637		2.3
Buses*		81		0.3
Goods vehicles over 3.5 tonnes		432		1.6
Crown and exempt vehicles†		1,591		5.8
Other vehicles		343		1.2
Total		27,658		100.0
By body type†				
Cars‡		23,415		84.7
Taxis		36		0.1
Motorcycles and three-wheelers		794		2.9
Goods vehicles up to 3.5 tonnes		2,096		7.6
Goods vehicles over 3.5 tonnes		583		2.1
Buses and coaches		166		0.6
Agricultural vehicles, etc§		295		1.1
Other vehicles¶		273		1.0
Total		27,658		100.0

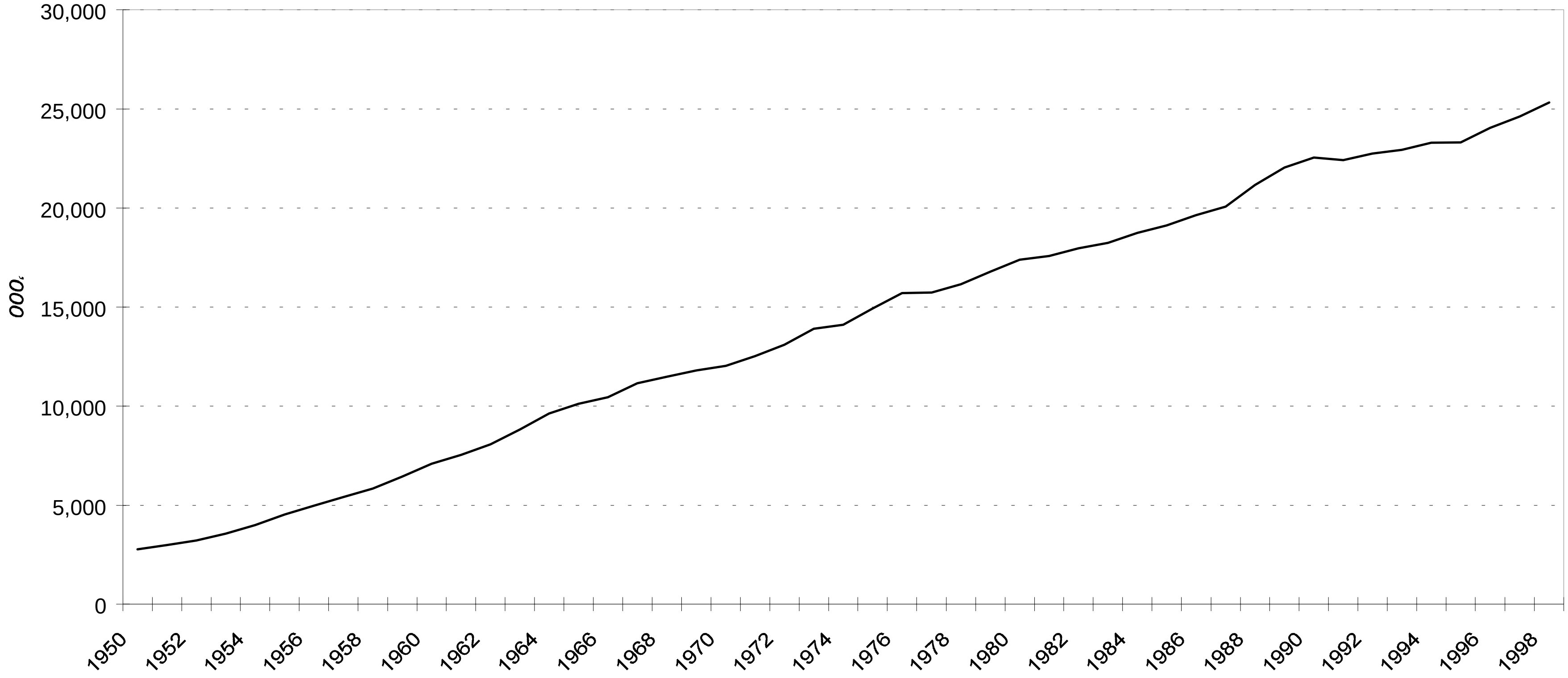
Source: MMC, based on data from DETR and DoE(NI).

*That is, public transport vehicles with more than eight seats.
†Includes vehicles for the disabled and vehicles over 25 years old. Excludes vehicles belonging to the Armed Forces.
‡Other than purpose-built taxis.
§Includes various types of agricultural harvesters, trucks, mobile cranes and mowing machines.
¶Examples include ambulances, fire engines, road construction vehicles and street-cleansing vehicles.

4.28. The changing age structure of vehicles being used on public roads will also have an effect on the demand for breakdown services. As Table 4.2 shows, at the end of 1997 about 68 per cent of all cars then licensed were over four years old and 32 per cent were ten or more years old. There are still almost as many cars on the road that were first registered in the peak years 1988 and 1989 as there are cars first registered in the years 1996 and 1997.

FIGURE 4.6

Light vehicles* licensed in Great Britain, 1950 to 1998†



Source: MMC, based on data published in *Transport Statistics Great Britain 1998 Edition*, DETR, September 1998.

*That is, all vehicles in the private and light goods and motorcycles taxation classes. The 1998 figure is an MMC estimate based on the latest actual data from DETR.
†As at 31 December each year.
Note: In preparing this chart the data have been adjusted to minimize the effects of breaks in the published data series in 1992 and 1995 arising from changes in taxation classifications.

TABLE 4.2 **Great Britain: cars licensed as at 31 December 1997 by year of first registration**

Year of first registration	*Number of cars* '000*	*Percentage of total %*
1997	1,858.7	8.6
1996	1,733.4	8.0
1995	1,679.0	7.7
1994	1,682.9	7.8
1993	1,570.9	7.2
1992	1,390.0	6.4
1991	1,365.4	6.3
1990	1,665.4	7.7
1989	1,845.2	8.5
1988	1,677.5	7.7
1987	1,383.2	6.4
1986	1,119.5	5.2
1985	899.2	4.1
1984	645.7	3.0
1983	472.0	2.2
1982	274.1	1.3
1981	137.9	0.6
1980	84.0	0.4
Pre-1980	196.3	0.9
Total	21,681.2	100.0

Source: *Vehicle Licensing Statistics 1997*, DETR, June 1998.

*That is, the number of cars in the private and light goods taxation group.

4.29. Both RACMS and Cendant provided us with data showing the age profile of the vehicles covered by their breakdown services (see Table 4.3). As can be seen, vehicles covered by Green Flag's breakdown services tend to be older than those covered by RACMS. About [✂] per cent of all light vehicles covered by Green Flag are over ten years old compared with [✂] per cent for RACMS. The much younger age profile of vehicles covered by RACMS is largely accounted for by the relatively large number of vehicles covered by its motor manufacturer and fleet schemes (see Table 4.4).

TABLE 4.3 **Age profiles of light vehicles covered by RACMS and Green Flag breakdown services, 1997**

	Direct retail		*Other sales*		*All light vehicles*	
Age (years)	*RACMS*	*Green Flag*	*RACMS*	*Green Flag*	*RACMS*	*Green Flag*
3 or fewer	*Figures omitted. See note on page iv.*					
4 to 6						
7 to 9						
10 or more						
Total	100	100	100	100	100	100

Source: MMC, based on data from Cendant and RACMS.

TABLE 4.4 **Age profiles of light vehicles covered by RACMS breakdown services, 1997**

Age (years)	*Direct retail*	*Intermediary*	*Fleet*	*Motor manufacturer*	*Mandatory*	*Total*
1*	*Figures omitted. See note on page iv.*					
2						
3						
4						
5						
6						
7						
8						
9						
10 or more						
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: RACMS.

*Almost all new cars are covered by motor manufacturer schemes.

Consumers' characteristics

4.30. Although, as might be expected, the detailed findings from numerous market research studies differ depending on exactly who was asked what and under what circumstances, a number of significant findings emerge from this research about the consumers who buy breakdown services, the features of breakdown services they consider to be particularly important and how satisfied they have been with the services provided. The main findings from a range of market research reports are summarized in Table 4.5; further information on these studies is in Appendix 4.3.

TABLE 4.5 **Summary of main findings from market research into the users of breakdown services**

Socio-economic groups

- Members of breakdown organizations tend to be in the higher socio-economic groups.
- The membership profile of RACMS is similar to that of the AA.
- Green Flag's members are spread slightly more evenly across the socio-economic groups than the AA's and RACMS's.

Penetration levels

- Breakdown organization membership among households rose significantly during the 1980s.
- But since 1990 it seems to have stabilized around the 43 to 45 per cent level.
- Membership among car owners in early 1998 was 58 per cent or more.
- About half of non-members definitely or probably would consider joining, and the rest would not consider joining, a breakdown organization.

Benefits of membership

- Consumers perceive the two single most important benefits as being a 24-hour service and a fast response to call-outs.
- The next most important benefits are repairs at the roadside, transport of driver and passengers to destination, national coverage and home call-outs.
- Non-roadside benefits (for example, accommodation, lists of approved garages, vandalism/theft prevention) appear to be perceived as very much secondary elements of membership.
- RACMS's and the AA's members seem to have roughly the same priorities.
- Green Flag members, compared with AA and RACMS members, give greater weight to a fast response to call-outs and transport to destination, and less weight to 24-hour service, repairs on site, national coverage, home call-out services and other features.

Customer perceptions

- The AA is widely recognized as the brand leader.
- While the RAC name is well known, it is seen as being in the shadow of the AA.
- The AA is seen as a provider of a risk-free quality service.
- RACMS is seen as a low-risk purchase.
- Expectations of the AA's and RACMS's services are high.
- Both the AA and RACMS are seen as more than just a breakdown service; they have a comprehensive range of services.
- The AA and RACMS benefit from high visibility (their patrol forces, road signs, etc).
- With its lack of visibility and use of contractors, Green Flag breakdown cover is seen as a riskier purchase than AA or RAC cover.
- Traditionally, Green Flag has been perceived as a no-frills operation offering value for money.
- [

  Details omitted. See note on page iv.

  ].
- Spontaneous awareness of Green Flag's existence as a breakdown organization reached 55 per cent in the summer of 1998.
- Even so, 66 per cent would insist on or prefer the AA and 44 per cent RACMS; only 16 per cent would insist on or prefer Green Flag.

Customer satisfaction

- Satisfaction levels with the AA's, RACMS's and Green Flag's services are high, though Green Flag's satisfaction figures are usually higher than the AA's or RACMS's.
- Length of wait and satisfaction with patrol are key factors in determining customers' satisfaction levels.
- While telephone performance also plays a major part, these two core influences seem more likely to leave impressions that are lasting and, in turn, influence the likelihood of renewals.
- About two-thirds of Green Flag's members had their expectations of service exceeded compared with a little over half of the AA and RACMS members.
- Customers' satisfaction levels with the patrol or contractor were broadly similar for all three organizations.
- Little variation was found between the three companies in terms of knowledge shown by patrol/contractor staff and technology used.
- In the mechanic/vehicle driver service element Britannia seems to perform best (though based on a small sample size), with the AA and the RACMS being just above the industry average and Green Flag well below.
- Britannia also seems to be best in the operator/dispatcher service element (again, based on a small sample size), with Mondial a strong second; RACMS was just above the industry average and the AA just below along with Green Flag.
- The leading companies in respect of time to attend are Britannia (small sample size) and Green Flag, with Mondial and RACMS just above the industry average and the AA a little below.
- A survey in early 1998 found that Green Flag's members reported shorter average waiting times (36 minutes) than the AA's (43 minutes) and RACMS's (47 minutes).

Prices

- Renewal price sensitivity seems to be 'very low'.
- New membership price sensitivity appears to be 'relatively low'.
- The price sensitivities of the various add-ons (for example, home start) also appear to be very low.

Source: MMC, based on the findings of various consumer research reports as summarized in Appendix 4.3.

Suppliers of insured breakdown services

4.31. While quite a number of breakdown organizations supply breakdown services in the UK (see Table 4.6), only the largest seven have market shares greater than 1 per cent.

The Automobile Association

4.32. The AA is by far the largest of the breakdown organizations in the UK. In 1998 its breakdown services covered about 9.4 million light vehicles and yielded revenues of about £377 million (see Table 4.11). Using its national control centre in Basingstoke and its eight regional control rooms (in Belfast, Glasgow, Cheadle, Halesowen (west of Birmingham), Bristol, Thatcham (near Newbury), Stanmore (in north-west London) and Maidstone), the AA operates its own liveried patrol force of some 3,550 people, about 3,200 patrol vans and 330 recovery vehicles. Over the last ten years the patrol force attended, on average, just over 90 per cent of the call-outs that the AA received, with garage contractors drawn from a list of about 800 being used to attend the other 10 per cent.

TABLE 4.6 **Breakdown organizations in the UK ranked by date of establishment**

Breakdown organization	*Established in UK*	*Owner*	*Market share in value terms, 1998*
RACMS*	1897	RAC Holdings	29.1
AA	1905	AA	48.3
GEM Recovery	1932	GEM (a registered charity)	†
Autohome	1971	Autohome Limited	†
Green Flag‡	1971	Cendant	11.7
Europ Assistance	1973	Assicurazioni Generali, Fiat and Zurich VG	1.5
Inter Partner Assistance§	1975	AXA/General Europea SA	†
DAS	1975	DAS International Group	†
Autoaid	1978	Boncaster Limited	†
Hambro Assistance¶	1979	Hambro Insurance Group	†
Mondial	1980	Assurances Générales de France and Groupe des Assurances Nationales	3.4
Britannia	1983	Civil Service Motoring Association	1.8
FirstAssist¤	1986	Royal & SunAlliance Insurance Group plc	†
Signal	1987	Autohome Limited	†
Environmental Transport Association	1990	ETA Trust (a registered charity)	†
Countrywide Assistance	1992	Misys Group	†
Delta Rescue	1992	Fleet Management Group Ltd	†
Autonational Rescue	1993	Boncaster Limited	†
National Autopoint Motoring Organization**	1994	National Autopoint Motoring Ltd	†
Preferred Direct Rescue	1994	Topdanmark SA	†
Independent Recovery Services	1995	A group of garage contractors	†
Direct Line Rescue	1998	Royal Bank of Scotland	1.3

Source: MMC, based on information from the AA, RACMS, Cendant and other breakdown organizations.

*Originally RAC.
†Market share is less than 1 per cent.
‡Originally National Breakdown.
§Formerly GESA and SFA.
¶Hambro Assistance was renamed Eastgate Assistance in December 1998.
¤Originally established as International Assistance Services and launched as FirstAssist in March 1998.
**Dormant since late 1995.

4.33. The AA's brand name is very well known; since 1993 the AA has promoted the idea of its breakdown service as being 'the 4th emergency service' to its members. The AA's personal membership scheme is personal- and not vehicle-based (thus, the AA member would be covered for breakdown insurance even if travelling as a passenger in someone else's car). For an additional charge personal membership can be extended to other members of the family.

4.34. The AA markets a wide range of other services, including motor, household, medical, accident and personal insurance; personal loans; credit cards; consumer protection; home and medical assistance; publishing; hotel reservation; route guidance; traffic information; vehicle inspection; driver training; vehicle security systems; and holiday and European assistance packages. The AA recently announced, however, that it was withdrawing from some of its business activities, including motor and home insurance underwriting, home security and assistance and mobile communications installation.

RAC Motoring Services

4.35. RACMS is the second largest of the breakdown organizations in the UK. In 1998 its breakdown services covered about 5.5 million light vehicles and yielded revenues of about £227 million (see Table 4.11). It has six control centres (in Belfast, Glasgow, Stockport, Bescot (near Walsall), Bradley Stoke (near Bristol) and Feltham (in west London)). In 1998 its own liveried patrol force amounted to some 1,300 people and patrol vans. Over the last ten years RACMS's patrol service attended, on average, 83 per cent of the call-outs received by RACMS, with garage contractors drawn from a list of about 700 being used to attend the other 17 per cent.

4.36. The RAC brand name is very well known. As with the AA, RACMS's individual membership schemes are personal- and not vehicle-based. RACMS also markets a range of other services (see paragraph 3.43).

Green Flag

4.37. Green Flag is the third largest of the breakdown organizations in the UK. In 1998 its breakdown services covered about 2.4 million light vehicles and yielded revenues of about £92 million (see Table 4.11). Its breakdown service activities are run from its offices and call centre in Leeds. All its insured breakdown service call-outs are attended by garage contractors drawn from a list of about 660.

4.38. The Green Flag brand name, which was phased in during the period 1994 to 1996 to replace the previous brand name National Breakdown (see paragraph 3.36), is not as well known as the AA and RAC brands (see paragraph 4.112). In contrast to the AA and RACMS, under Green Flag's breakdown schemes it is the vehicle that is insured, not the member (thus, a vehicle insured for breakdown services by Green Flag would be covered even if someone else was using the vehicle (with the policy-holder's permission) at the time of the breakdown). Green Flag markets a range of other services too (see paragraph 3.38).

Other suppliers

4.39. Mondial was established in the UK in 1980, six years after Mondial Assistance International was formed in France by Société l'Automobile Club and two major French insurance companies.[1] In 1998 Mondial's UK breakdown service covered almost 1.2 million light vehicles and yielded revenues of about £27 million (see Table 4.11). All its breakdown service activities are run from its offices and call centre in Croydon. Mondial's call-outs for breakdown service are attended by garage contractors drawn from a list of just over 400. However, for most breakdowns involving Volkswagen, BMW and Land Rover vehicles, Mondial sends a directly-employed technician, dedicated to the make in question, in a liveried vehicle carrying a range of the appropriate spare parts. As at November 1998 Mondial had 160 such technicians, split between the three manufacturers concerned, and expected to increase these in 1999 to cover Rover vehicles as well (see paragraph 4.40).

4.40. Mondial does not provide breakdown services under its own name in the UK; instead its services are supplied to motorists in the name of the organizations, mostly motor car manufacturers, which have placed contracts with it. (This is also the case for other companies in the Mondial group, which operate in many European countries, where their share of breakdown services for new cars

[1]Assurances Générales de France (AGF) (Mondial's ultimate parent company with 51 per cent of its shares) and Groupe des Assurances Nationales (GAN) (which has 49 per cent of Mondial's shares).

ranges from quite small up to about 24 per cent (in Austria); across Europe as a whole its market share of motor manufacturer schemes is about 10 per cent.) As well as long-standing contracts with BMW, Mazda, Mitsubishi and Volkswagen, Mondial recently won contracts with Land Rover (in 1997) and Rover Group (beginning in 1999) that had previously been with the AA (though the AA will continue to supply services to its existing Rover Group customers until the end of 1999). Mondial's Rover Group customers will be provided with breakdown services using a patrol force of Land Rover Discovery vehicles and Rover-trained technicians.

4.41. Britannia, a subsidiary of the CSMA, began supplying breakdown services to CSMA members in 1983 and to the general public in 1984 (until 1981 the CSMA had been an intermediary customer of Green Flag, or National Breakdown as it was then). In 1998 Britannia's breakdown service covered some 390,000 light vehicles and yielded revenues of about £14 million (see Table 4.11). All its breakdown service activities are run from its offices and call centre in Huddersfield. Britannia claims one of the fastest response times of all operators (an average of about 34 minutes); *Which?* magazine declared it 'Best Buy' in each of the last three of its reports on breakdown services (the last being dated November 1996). Britannia uses about 450 garage contractors to provide roadside and recovery services to its members.

4.42. Europ Assistance was established in the UK in 1973. Its breakdown service activities are run from its call centre in Haywards Heath. At first its breakdown services were distributed through independent insurance brokers but over the years Europ Assistance began supplying breakdown services branded by various financial services companies (such as Commercial Union, General Accident, Midland Bank and, up to April 1998, Direct Line); these now dominate its UK sales. Europ Assistance's main activities in the UK are medical and travel insurance. In 1998 its UK breakdown service covered about 230,000 light vehicles and yielded revenues of about £12 million (see Table 4.11). Garage contractors drawn from a list of about 1,500 attend Europ Assistance's call-outs for breakdown service. Europ Assistance is 80 per cent owned by Europ Assistance Group based in France, where it was founded in 1963, and 20 per cent by Eagle Star (itself now owned by Zurich VG). The company told us that Europ Assistance Group (which is now Italian-owned, 60 per cent by Assicurazioni Generali and 40 per cent by Fiat Group) was the leading supplier of breakdown services in Europe; *inter alia*, it was the largest supplier of breakdown services in Italy and France and the second largest in Belgium, Spain and Portugal.

4.43. Direct Line Rescue was launched in May 1998 by Direct Line, one of the UK's largest insurers of private motor vehicles, which had already established itself as a well-known brand. Direct Line had sold Europ Assistance's breakdown services to its motor insurance customers since 1985. In mid-1997, when it had about 70,000 breakdown customers, Direct Line rebranded this breakdown service as Direct Line Rescue, though it was still underwritten by Europ Assistance; by late May 1998 it had about 120,000 breakdown customers. Since then Direct Line Rescue has been underwritten and administered in-house by Direct Line, though the call-centre and garage contractor management activities are still handled by Europ Assistance. By November 1998, Direct Line's breakdown service covered about 207,000 light vehicles. Direct Line's prices are risk-based (ie individually tailored, largely according to the vehicle's identity) and its breakdown service covers anyone driving the vehicle specified in the policy.

4.44. Boncaster Limited, an insurance broker, markets breakdown services under two main brands: Autonational Rescue and AutoAid (another brand, NARPO Rescue, is available through the National Association of Retired Police Officers). Together, policies issued under these three brands now cover about 125,000 vehicles. Autonational Rescue, launched in 1993, is an insured breakdown service. AutoAid, established in 1978, is a pay-and-reclaim scheme which insures the person, not the vehicle (that is, the customer arranges whatever breakdown assistance is needed, pays the bill and then reclaims the money). Boncaster's offices and call centre are in Brentwood.

4.45. Other breakdown organizations include the following:

— *FirstAssist*, launched in March 1998 as the assistance services arm of RSA (it replaces several earlier schemes, including International Assistance Services, following the merger of the Royal Insurance and Sun Alliance insurance companies). FirstAssist's breakdown service, one of several different services provided by FirstAssist, is normally only available bundled with other products (mainly motor insurance). FirstAssist's insured breakdown service has about 80,000 policy-holders.

— *Hambro Assistance*, a subsidiary of Hambro Insurance Group. It markets roadside assistance and recovery policies through insurance companies, brokers and others (Hambro Assistance was renamed Eastgate Assistance in December 1998 following the renaming of Hambro Insurance Group as Eastgate Group Limited).

— *Environmental Transport Association*, a charitable trust with the services run by ETA Services Limited. It also provides the UK's first bicycle breakdown service.

— *Guild of Experienced Motorists*, rebranded from the long-established Company of Veteran Motorists in 1983. With underwriting provided by Equity Red Star, the Guild uses the same call-centre and other infrastructure services as Boncaster.

— *Inter-Partner Assistance*, previously known as GESA. Its breakdown service is targeted largely at the intermediary sales channel.

— *Autohome*, a family-run business which entered the market in 1971.

Garage contractors

4.46. There was general agreement among the various breakdown organizations and garage contractors' trade associations that we contacted that there are about 2,500 garage contractors operating in the UK at present (the estimates we were given ranged from 2,000 to 3,000). While these include some small one-man, one-vehicle operations, the typical contractor employs 7 to 10 people, operates 7 to 11 roadside assistance vehicles and achieves revenues from breakdown services alone of about £200,000 to £250,000 a year.

4.47. Individual garage contractors generally work for several breakdown organizations: none, so far as we could ascertain, works exclusively for only one. Between them, garage contractors attended over 5 million light vehicle breakdowns in 1997 (see Table 4.7). A little under half of these were breakdowns of vehicles covered by insured breakdown services. Vehicles covered by RACMS's insured breakdown services accounted for about 9 per cent of garage contractors' total volume of breakdown services business and those covered by Green Flag accounted for about 15 per cent.

TABLE 4.7 **Garage contractors: demand for their roadside assistance and recovery services, 1997**

	Number of vehicles m	*Total number of call-outs m*	*Frequency of use %*	*Network usage* %*	*Network use m*	*Market share Insured %*	*Market share Total %*
Insured breakdown services							
AA	9.225	4.87	53	9	0.41	15.5	7.5
RACMS	5.465	2.58	47	20	0.52	19.6	9.5
Green Flag	2.272	0.83	37	100	0.83	31.3	15.1
Others	2.225	0.89	40	100	0.89	33.6	16.2
Sub-total	19.187	9.17	48	29	2.65	100.0	48.2
Other vehicles	7.118	2.85	40	100	2.85		51.8
Total†	26.305	12.02	46	46	5.50		100.0

Source: MMC.

*That is, the proportion of all the breakdown organization's call-outs that are attended by garage contractors rather than (where applicable) by its own liveried patrol force.

†The total number of vehicles figure of 26,305,000 is the number of light vehicles licensed in the UK as at 31 December 1997.

Size of market and market shares

4.48. In this section of the chapter we set out the sales and market share data for each of the main breakdown organizations. But before doing so, we consider the various factors that should be taken into account when determining the extent of the relevant market.

Market definition

4.49. In considering the actual or likely effects of any merger, we need to identify and define the relevant market or markets within which the impact of the merger is likely to be significant. In this section we explore the issues that arise in defining the market(s) affected by the present merger. The conclusions we reach on market definition are set out in paragraphs 2.38 to 2.45.

4.50. The relevant market is usually defined as that group of products/services for which there are no close substitutes (actual or perceived) on either the demand or supply side. There are two ways by which products/services may be substitutable for each other: *(a)* on the demand side, where consumers switch to an alternative product/service in response to a price increase for the product/service they had bought previously; and *(b)* on the supply side, where suppliers of other products/services are induced to switch some of their existing production capacity to supply the product/service in question in response to a price increase.

4.51. The substitutability test is usually construed in terms of the most narrowly defined group of products or services for which a hypothetical monopoly supplier would be able to raise its prices (or to reduce quality) to a material degree, over the long term, without suffering a reduction in profitability as a consequence of a loss of custom. Such an assessment will normally involve consideration of the structure of supply in the industry, competitive relationships between the key firms, the availability of substitute products and evidence as to the nature of consumer purchasing behaviour.

Assessing the market: type of vehicle

4.52. There was a consensus among those giving evidence to us that the provision of breakdown services for heavy vehicles was a quite distinct activity from their provision for light vehicles, and that the dividing line between the two lay at vehicles of 3.5 tonnes maximum laden weight. Vehicles up to that size (cars, minibuses, light goods vehicles up to 3.5 tonnes maximum laden weight, motor cycles, scooters and mopeds), referred to collectively in this report as light vehicles, are covered by the main insured breakdown services offered by the AA, RACMS, Green Flag and their competitors.

4.53. The key factor in the distinction is that the equipment needed to provide roadside assistance and recovery for heavy vehicles is usually quite different from that needed for dealing with light vehicles. In practice, equipment needed for heavy vehicles is held mainly by dealers and garages specializing in them, and indeed by the manufacturers of such vehicles. Thus, while it would readily be possible for breakdown organizations serving light vehicles to provide insurance and call-centre services to users of heavy vehicles as well, they would need to make quite separate arrangements to provide the most important element of the package, namely breakdown services. Thus, those organizations cannot readily switch resources into providing breakdown services for heavy vehicles, nor could drivers of heavy vehicles that broke down (or their employers) use the light vehicle breakdown services provided by those organizations if dissatisfied with the service available from the bodies dealing with heavy vehicle breakdowns. In practice, the two markets work in different ways.

4.54. The AA, RACMS and Green Flag each provide call-centre services for heavy vehicle breakdowns and we therefore consider the merger's impact on this activity in our report: see paragraphs 4.74 and 4.75. By far the most important activity of these breakdown organizations, however, is the provision of insured breakdown services for light vehicles and it is that activity that we deal with in the rest of this section on market definition.

Assessing the market: non-insured motorists

4.55. Before assessing whether insured breakdown services constitute one or more markets, we need to consider the position of motorists who do not have the benefit of insured breakdown cover (see paragraphs 4.10 and 4.11).

4.56. A recent survey found that 42 per cent of car owners thought that they were not members of any breakdown organization (see Table 4.5). However, the data we collected on the total number of light vehicles covered by insured breakdown services suggest that non-insured vehicles account for only about 27 per cent of the total number of light vehicles currently licensed (or for about 30 per cent if an allowance is made for the estimated number of unlicensed vehicles being used on the roads). Non-insured motorists are more likely than insured motorists to be aged 24 or younger and in the D and E socio-economic groups (see Appendix 4.3, Table 2). They are no less likely to break down than those in the insured group: indeed, the opposite may be true (for example, where they have older or poorly maintained vehicles). When they do break down, they have a number of options: repairing the vehicle themselves; calling on the services of family or friends; purchasing breakdown services by calling a breakdown organization and applying to join it immediately; or calling out the services of a local garage contractor (see paragraph 4.11).

4.57. Non-insured motorists are not purchasers of insured breakdown services and so would not be affected if a notional monopoly supplier of these services raised its prices (though some might well be attracted into the market if prices fell). Even though non-insured motorists are not, by definition, part of the market for insured breakdown services, they do have an impact on it in two ways: first, they are potential consumers in that market; and second, they are significant users of the services provided by garages operating roadside assistance and recovery vehicles. It should also be noted that insured motorists may choose to join the ranks of the non-insured if they are no longer able or willing to pay for insured cover (for example, if they consider it poor value for money).

Assessing the market: sales channels

4.58. We now consider the factors which bear on the question whether insured breakdown services should be regarded as a single homogeneous market; a single market within which distinctions should be drawn between various types of service (whether such distinctions are on the basis merely of sales channels or whether they relate to more fundamental differences with important implications for competitive analysis); or encompassing more than one market.

4.59. Assessing whether or not insured breakdown services constitute one market is complicated by the difficulty of making price comparisons (needed in order to apply the usual price test) between the forms of supply. The test (see paragraph 4.51) cannot be directly applied across the different forms of supply because for some the consumer does not pay a separately identified price and for some others the retail price is set by an intermediary rather than by the breakdown organization providing the service. Moreover, the average realized revenues achieved by breakdown organizations are related to different levels of supply: retail prices apply to their direct retail sales, wholesale prices to their sales in the mandatory, motor manufacturer and fleet sales channels and a mixture of the two to the intermediary channel. These difficulties of comparison may, however, themselves point to the need to draw distinctions within a market.

4.60. For these reasons, it is useful to have resort to non-price factors in considering whether a group of products constitutes a single market. Factors that suggest that insured breakdown services form one single market include the following: *(a)* the range of services required by, and supplied to, motorists is essentially similar regardless of the form of supply; *(b)* the breakdown organizations are each physically quite capable of supplying breakdown services for all the forms of supply; *(c)* the basic facilities needed to provide the services (insurance, call centre and liveried patrol and/or garage contractor) are the same; *(d)* personal customers can easily switch between the sources of some of the different forms of supply, for example by buying from an intermediary instead of directly from a breakdown organization; *(e)* where motorists do not buy direct from the breakdown organization there is nevertheless an element of choice for motor car manufacturers, fleet operators and the various intermediary bodies since they can switch between different breakdown organizations.

4.61. On the other hand, various distinctions can be drawn between the types of service that may indicate different economic behaviour on the supplier or consumer sides. One such distinction is between sales made directly to consumers (direct retail) and those made to all other purchasers. This distinction would be based on four factors: *(a)* market shares among suppliers are significantly different between the two categories, with the AA and RACMS each having very large shares of direct retail sales and most other suppliers concentrating their sales activities in the other forms of supply; *(b)* in contrast to other forms of supply, only the breakdown organization sets retail prices for its direct retail sales; *(c)* entry barriers (notably brand strength and access to customers) are higher in the direct retail area than in the other forms of supply; and *(d)* considerable buyer power is found in the forms of supply other than direct retail (this is probably the most important determinant of price for these forms of supply).

4.62. A second basis for distinguishing between services would be whether or not it is the end-user who makes the decision to buy insured breakdown services from a particular supplier at a particular price. Such ‘discretionary’ purchases are made either directly from a breakdown organization or from an intermediary that supplies the services on an unbundled basis. In contrast, the insured breakdown services are also provided bundled with other products or services through mandatory and motor manufacturer schemes. In these circumstances, consumers are not able to make a separate choice as to which supplier’s services to acquire, nor do they even know the price paid for the insured breakdown service. It is only between the direct retail and intermediary routes (ie categories of ‘discretionary’ purchase) that consumers have the ability to switch of their own accord. Moreover, where breakdown services are bundled with other products or services, the different nature of the bundles (for example, as between mandatory and motor manufacturer schemes) may be significant for competition analysis.

4.63. The distinction between discretionary and non-discretionary purchases is not, however, always clear-cut. In some motor manufacturer schemes, all of which are in the non-discretionary category, the breakdown organization can try to convert car owners into direct retail or intermediary customers, who themselves then pay for their free-standing breakdown service cover when the manufacturer-paid cover ends. In such cases, by choosing to remain with the same breakdown organization by purchasing its services rather than moving to another one or reverting to the previous one, the motorists concerned are in effect being converted from non-discretionary into discretionary purchasers even though they may not be aware of the supplier’s identity (that is, where the breakdown organization provides the service under the brand name of a motor manufacturer).

Number of vehicles and scheme membership numbers

4.64. The very considerable growth in the number of vehicles on the roads (see Figure 4.6) has been reflected in the demand for breakdown services. We estimate that almost 20 million cars in the UK are now covered by insured breakdown services; this compares with just under 12 million ten years ago (see Table 4.8). Much of the growth in numbers was accounted for by the considerable increase in sales to companies (notably, those under the motor manufacturer and mandatory schemes, which between them have grown from about 7 per cent in 1988 to about 27 per cent of the total by 1998). Direct retail sales now account for 49 per cent of vehicles covered by an insured breakdown service compared with 74 per cent ten years ago (see Table 4.9), though because of the growth in intermediary schemes, total sales to individuals have declined less (from 79 per cent in 1988 to 61 per cent by 1998).

TABLE 4.8 **Estimated number of light vehicles covered by insured breakdown services, 1988 to 1998**

'000

Sales channel	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Direct retail	8,878	9,362	9,221	8,966	8,819	8,853	8,930	9,156	9,280	9,590	9,691
Intermediary	596	666	867	1,128	1,395	1,417	1,660	1,872	2,022	2,312	2,337
Sub-total: sales to individuals	9,474	10,028	10,088	10,094	10,214	10,271	10,590	11,028	11,302	11,902	12,028
Motor manufacturer	862	1,446	2,477	2,437	3,041	3,241	3,386	3,484	3,543	3,695	4,128
Mandatory	3	6	10	16	39	238	380	767	930	1,009	1,122
Fleet	1,588	1,831	2,028	2,128	2,118	2,295	2,228	2,271	2,425	2,581	2,547
Sub-total: sales to companies	2,453	3,283	4,515	4,581	5,198	5,773	5,994	6,522	6,899	7,285	7,797
Total number of vehicles	11,927	13,311	14,604	14,676	15,412	16,044	16,584	17,550	18,201	19,187	19,825

Source: MMC, based on data from the companies.

Note: The estimation of vehicle numbers for direct retail sales by the AA and RACMS is explained in paragraph 4.67.

TABLE 4.9 **Estimated number of light vehicles covered by insured breakdown services, 1988 to 1998 : shares by sales channel**

per cent

Sales channel	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Direct retail	74.4	70.3	63.1	61.1	57.2	55.2	53.8	52.2	51.0	50.0	48.9
Intermediary schemes	5.0	5.0	5.9	7.7	9.1	8.8	10.0	10.7	11.1	12.0	11.8
Sub-total: sales to individuals	79.4	75.3	69.1	68.8	66.3	64.0	63.9	62.8	62.1	62.0	60.7
Motor manufacturer	7.2	10.9	17.0	16.6	19.7	20.2	20.4	19.9	19.5	19.3	20.8
Mandatory	0.0	0.0	0.1	0.1	0.3	1.5	2.3	4.4	5.1	5.3	5.7
Fleet	13.3	13.8	13.9	14.5	13.7	14.3	13.4	12.9	13.3	13.5	12.8
Sub-total: sales to companies	20.6	24.7	30.9	31.2	33.7	36.0	36.1	37.2	37.9	38.0	39.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: MMC, based on data in Table 4.8.

4.65. The AA is the largest breakdown organization; its share of all sales, in terms of vehicle numbers, was about 48 per cent in 1998 (see Table 4.10). The next largest are RACMS, at 28 per cent, and Green Flag, at 12 per cent; the combined share of RACMS and Green Flag was about 40 per cent in 1998. Between them, these three breakdown organizations accounted for about 87 per cent of all light vehicles covered by breakdown services in the UK in 1998. The next largest were Mondial, Britannia and Europ Assistance; between them, these three accounted for about 9 per cent of vehicles covered by insured breakdown services in 1998.

TABLE 4.10 **Estimated market shares based on the number of light vehicles covered, 1998**

per cent

Sales channel	*AA*	*RACMS*	*Green Flag*	*Mondial*	*Brit-annia*	*Europ Assist*	*Direct Line*	*Bon-caster*	*Others*	*Total*
Direct retail	63	25	6	-	1	2	2	1	1	100
Intermediary	-	14	39	26	13	3	-	…	5	100
Sub-total: sales to individuals	51	22	12	5	3	2	2	1	2	100
Motor manufacturer	37	45	4	13	-	…	-	-	…	100
Mandatory	-	30	62	-	-	-	-	-	9	100
Fleet	70	24	3	-	-	-	-	-	2	100
Sub-total: sales to companies	43	36	12	7	…	…	-	-	2	100
Total	47.5	27.8	11.9	5.8	1.9	1.2	1.0	0.6	2.1	100

Source: MMC, based on data from the companies.

Notes:
1. …= less than 0.5 per cent.
2. Except for data in the last row, percentages have been rounded to the nearest whole number after calculation.

4.66. Summary data for 1998 are shown in Table 4.11.

TABLE 4.11 **Insured breakdown services in the UK: estimated market shares, 1998**

Breakdown organization	*Number of vehicles '000*	*%*	*Revenue '000*	*%*
AA	9,425	47.5	377.3	48.3
RACMS	5,517	27.8	227.0	29.1
Green Flag	2,365	11.9	91.6	11.7
Mondial	1,150	5.8	26.8	3.4
Britannia	386	1.9	14.3	1.8
Europ Assistance	232	1.2	11.8	1.5
Direct Line*	207	1.0	10.0	1.3
Boncaster	125	0.6	4.9	0.6
Others	418	2.1	17.0	2.2
Total	19,825	100.0	780.8	100.0

Source: MMC, based on data from the companies.

*Vehicles covered as at November 1998.
Note: The figures shown for Mondial in Tables 4.10 and 4.11 do not include the additional vehicles Mondial will be handling from 1999 onwards as a result of it acquiring the Rover Group contract but they do include the Land Rover vehicles that Mondial has handled since 1997.

4.67. Both the AA and RACMS supply their direct retail customers with personal-based membership, ie the member is entitled to the benefit whatever the light vehicle he/she is travelling in (membership numbers are shown in Table 4.12). The AA's and RACMS's other members, ie those enrolled through intermediary and motor manufacturer schemes, etc, have vehicle-based rather than personal-based cover. With few exceptions, the other breakdown organizations' insured breakdown services are all vehicle-based, though some offer personal-based cover as an optional extra. In compiling the vehicle data for the AA, to make them comparable with those of the other breakdown organizations, we multiplied the number of main members (ie excluding all those joint, family or other members who do not pay the full rate because of their relationship with a main member) each year by the average number of vehicles per household that year for those households that have vehicles (data from the DETR show that, apart from 1988 when it was 1.35, this figure was in the range 1.41 to 1.42 vehicles per household). RACMS membership is not broken down in the same way as the AA's; to make an equivalent adjustment in respect of the RACMS data we multiplied the number of direct retail policies each year by the average number of vehicles per household that year.

TABLE 4.12 **Personal-based membership of the AA and RACMS, 1988 to 1998: average revenue per member**

	Number of direct retail members ('000)					*Average revenue per member from direct retail sales*		*Average revenue per member from direct retail sales: in constant prices†*	
	AA			*RACMS**	*Total: AA and RACMS*	*£*		*£*	
Year	*Main*	*Associate*	*Total*	*Total*		*AA‡*	*RACMS*	*AA‡*	*RACMS*
1988									
1989									
1990									
1991									
1992									
1993				*Figures omitted. See note on page iv.*					
1994									
1995									
1996									
1997									
1998§									

Source: MMC, based on data from the AA and RACMS.

*Number of policies. Many of these policies will cover more than one individual. RACMS only had 'personal' members before 1995. From 1995 various classes of membership have been introduced, some of which are no longer available to new members. In 1997 RACMS had about [✄] joint and family policies.

†Deflated using the implied GDP deflator (at market prices) (1997=100).

‡Per 'main' member.

§Provisional data.

Note: The AA's associate members include joint and family members. The AA's membership numbers include a small number, about [✄] a year, who are members through affinity schemes. RACMS's membership is not broken down in the same way as the AA's.

Suppliers' sales in revenue terms

4.68. We estimate that the total revenue from sales of insured breakdown services in the UK in 1998 was about £780 million; this compares with about £310 million in 1988 (see Table 4.13). In constant price terms, the total revenue from sales of insured breakdown services increased by about 69 per cent between 1988 and 1998 (see Table 4.14).

4.69. Direct retail sales of insured breakdown services now account for about 71 per cent of the total in value terms (down from 84 per cent in 1988) (see Table 4.15). However, when combined with sales through intermediary schemes, the share increases to 84 per cent, only about six percentage points below the equivalent 1988 figure.

TABLE 4.13 **Insured breakdown services: annual realized revenue, 1988 to 1998**

£ million

Sales channel	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Direct retail	260.1	302.4	346.3	366.9	417.4	453.5	463.1	478.9	505.7	525.2	556.1
Intermediary	17.5	22.2	28.2	38.9	48.3	54.5	63.6	73.8	84.9	97.1	98.1
Sub-total: sales to individuals	277.6	324.6	374.5	405.6	465.7	508.0	526.7	552.7	590.6	622.3	654.2
Motor manufacturer	7.8	15.0	22.7	26.5	32.2	33.9	37.1	39.5	43.1	46.7	55.8
Mandatory	0.2	0.4	0.5	0.7	1.7	7.2	9.2	10.4	13.8	17.8	18.5
Fleet	24.5	27.9	32.6	35.3	39.1	40.2	41.2	46.8	46.2	46.4	52.3
Sub-total: sales to companies	32.5	43.3	55.7	62.4	73.0	81.4	87.5	96.7	103.1	110.8	126.6
Total realized revenue	310.1	367.9	430.2	468.1	538.6	589.3	614.2	649.4	693.7	733.2	780.8

Source: MMC, based on data from the companies.

TABLE 4.14 **Insured breakdown services: annual realized revenue in real terms,* 1988 to 1998**

£ million

Sales channel	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Direct retail	379.2	410.3	436.4	433.0	473.6	500.7	503.9	508.1	519.4	525.2	545.2
Intermediate	25.5	30.1	35.5	45.9	54.8	60.2	69.2	78.3	87.2	97.1	96.2
Sub-total: sales to individuals	404.6	440.4	471.9	478.8	528.4	560.9	573.2	586.4	606.6	622.3	641.4
Motor manufacturer	11.4	20.4	28.6	31.2	36.5	37.4	40.4	41.9	44.2	46.7	54.7
Mandatory	0.3	0.5	0.6	0.8	1.9	8.0	10.0	11.0	14.2	17.8	18.1
Fleet	35.7	37.9	41.0	41.7	44.4	44.4	44.8	49.6	47.5	46.4	51.3
Sub-total: sales to companies	47.4	58.8	70.2	73.7	82.8	89.8	95.2	102.6	105.9	110.8	124.1
Total realized revenue	452.0	499.1	542.1	552.5	611.2	650.7	668.4	689.0	712.5	733.2	765.5

Source: MMC, based on data in Table 4.13.

*Annual sales deflated by the implied GDP deflator (at market prices) (1997=100).

TABLE 4.15 **Insured breakdown services: annual realized revenue, 1988 to 1998: shares by sales channel**

per cent

Sales channel	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Direct retail	83.9	82.2	80.5	78.4	77.5	76.9	75.4	73.7	72.9	71.6	71.2
Intermediary	5.6	6.0	6.5	8.3	9.0	9.2	10.4	11.4	12.2	13.2	12.6
Sub-total: sales to individuals	89.5	88.2	87.0	86.7	86.5	86.2	85.8	85.1	85.1	84.9	83.8
Motor manufacturer	2.5	4.1	5.3	5.7	6.0	5.7	6.0	6.1	6.2	6.4	7.1
Mandatory	0.1	0.1	0.1	0.1	0.3	1.2	1.5	1.6	2.0	2.4	2.4
Fleet	7.9	7.6	7.6	7.5	7.3	6.8	6.7	7.2	6.7	6.3	6.7
Sub-total: sales to companies	10.5	11.8	13.0	13.3	13.5	13.8	14.2	14.9	14.9	15.1	16.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: MMC, based on data in Table 4.13.

4.70. In value terms, with a share of 48 per cent in 1998, the AA is the largest breakdown organization (see Table 4.16). The next largest are RACMS, at 29 per cent, and Green Flag, at 12 per cent. The combined share of RACMS and Green Flag was about 41 per cent in 1998. These three breakdown organizations between them accounted for about 89 per cent of sales of insured breakdown services by value in 1998.

TABLE 4.16 **Estimated market shares based on sales values, 1998**

per cent

Sales channel	*AA*	*RACMS*	*Green Flag*	*Mon-dial*	*Brit-annia*	*Europ Assist*	*Direct line*	*Bon-caster*	*Others*	*Total*
Direct retail	59	29	6	-	1	2	2	1	1	100
Intermediary	-	15	44	20	10	3	-	…	7	100
Sub-total: sales to individuals	50	27	12	3	2	2	2	1	2	100
Motor manufacturer	32	50	4	13	-	1	-	-	1	100
Mandatory	-	38	47	-	-	-	-	-	15	100
Fleet	58	33	7	-	-	-	-	-	2	100
Sub-total: sales to companies	38	41	12	6	-	…	-	-	3	100
Total	48.3	29.1	11.7	3.4	1.8	1.5	1.3	0.6	2.2	100

Source: MMC, based on data from the companies.

Notes:
1. … = less than 0.5 per cent.
2. Except for data in the last row, percentages have been rounded to the nearest whole number after calculation.

4.71. The effect of Cendant's proposed acquisition of RACMS on the overall structure of the insured breakdown services industry is summarized in Table 4.17. As can be seen, it would raise the share of revenue held by the two largest breakdown organizations from about 77 to about 89 per cent and the share of the number of vehicles covered from 75 to 87 per cent.

TABLE 4.17 **The estimated effects of Cendant's proposed acquisition of RACMS, based on 1998 data**

	Sales revenue		*Number of light vehicles*	
	Before	*After*	*Before*	*After*
All insured breakdown services				
Percentage share of the largest:				
breakdown organization	48	48	48	48
2 breakdown organizations	77	89	75	87
HHI*	3,337	4,018	3,217	3,874
Discretionary sales†				
Percentage share of the largest:				
breakdown organization	50	50	51	51
2 breakdown organizations	77	89	73	85
HHI*	3,408	4,036	3,261	3,798
Non-discretionary sales‡				
Percentage share of the largest:				
breakdown organization	41	53	43	48
2 breakdown organizations	79	91	79	91
HHI*	3,305	4,267	3,323	4,187

Source: MMC.

*See paragraph 4.72.
†That is, sales to individuals (see paragraph 4.62).
‡That is, sales to companies (see paragraph 4.62).

4.72. Cendant's proposed acquisition of RACMS would raise the value of the HHI,[1] as measured by industry turnover, from 3,337 to 4,018, an increase of 681 points (see Table 4.17). As measured by the number of vehicles, Cendant's proposed acquisition of RACMS would raise the value of the HHI from 3,217 to 3,874, an increase of 657 points.

4.73. A summary of the market shares of what are currently the five largest breakdown organizations for each of the years 1988 to 1998 is in Table 4.18. (For a summary of these five breakdown organizations' market shares in each of the main sales channels for the years 1988 to 1998, see Appendix 4.4.) In terms of number of vehicles covered, the AA had a lower market share in 1998 compared with 1988 (the drop in the AA's share was particularly marked in the period 1988 to 1993). While RACMS's share was a little higher in 1998 compared with 1988 (largely because of its increased sales through the motor manufacturer sales channel), over the period since 1993 its share has fallen sharply (from about 35 to 28 per cent). In terms of sales revenues, while the AA lost market share between 1988 and 1998, RACMS's was largely unchanged. The market share held by Green Flag grew during the period 1988 to 1995, but has fallen back a little since then. Mondial's share was broadly stationary until 1994 but has grown since then.

Vehicles over 3.5 tonnes

4.74. There are many different ways in which heavy vehicle breakdowns are handled, but most fall into one of three basic categories: *(a)* the vehicle operator makes his own arrangements as the need arises, either using his own facilities or those of a convenient repairer; *(b)* the vehicle operator makes arrangements in advance for breakdown assistance to be provided by one of the breakdown organizations, normally through an organized POU service; and *(c)* the vehicle operator relies on the vehicle manufacturer for breakdown services and the manufacturer in turn enters into a contract with one of the breakdown organizations either to provide a complete service or to provide call-centre services. Where services are supplied by breakdown organizations they are restricted largely to providing call-centre services, with the roadside breakdown service being provided by local dealers or specialist contractors depending on their availability and equipment.

4.75. There are currently about 583,000 goods vehicles over 3.5 tonnes licensed for use on the roads of the UK (see Table 4.1). The AA, RACMS and Green Flag each supply breakdown services for such vehicles. Green Flag's principal customers are Iveco Ford Trucks and Scania, whilst RACMS's are Leyland DAF Trucks and Mercedes. However, RACMS told us that [✄] was about to take in-house the service for its vehicles. Green Flag told us that in 1997 it handled about 120,000 breakdowns involving heavy goods vehicles; RACMS's figure was about 80,000. The AA handled about 33,000. In the absence of data about the total size of this market it is difficult to estimate market shares. In the light of estimates we received from a few heavy goods vehicle manufacturers and dealers, we estimate that the total number of breakdowns is now running at about 300,000 a year. The figure could be much higher, though it is very unlikely to be greater than 600,000. If the total was about 300,000 then Green Flag's share (based on its 1997 data) would be about 40 per cent, RACMS's 27 per cent and the AA's 11 per cent. (If the total market was as large as 600,000 then Green Flag's share would be 20 per cent, RACMS's 13 per cent and the AA's 6 per cent.)

The nature of competition between suppliers

4.76. The concept of competition is often difficult to define and identify. At one level, competition may be simply the existence, in consumers' eyes, of a degree of choice between alternative products or services, which enables consumers to maintain competition between suppliers through their purchase decisions. At another level, competition between suppliers may be active. Competition may be both continuous and pro-active, or sporadic and reactive. Competition may occur in price or non-price forms and both of these may also have a number of variants.

[1]The HHI is calculated by summing the squares of the individual market shares of each of the companies in the market (a lack of information about the shares held by individual small firms is not crucial as such firms have an insignificant effect on the value of the HHI). As a rough guide, the anti-trust authorities in the USA consider markets with HHI values of less than 1,000 as unconcentrated, markets with HHIs of between 1,000 and 1,800 as moderately concentrated and markets with HHIs of over 1,800 as highly concentrated. The anti-trust authorities in the USA consider that mergers in moderately concentrated markets producing an increase of more than 100 points in the HHI potentially raise significant concerns about the effects on competition.

TABLE 4.18 **Insured breakdown services: market shares by breakdown organization, 1988 to 1998**

Breakdown organization	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
By total revenue											
AA	55.3	54.0	54.3	51.5	51.0	49.3	48.7	49.5	49.9	49.3	48.3
RACMS	29.0	29.4	28.1	29.9	30.3	30.0	31.1	29.6	28.1	28.1	29.1
Green Flag	6.6	7.0	7.9	9.4	10.1	11.2	12.3	12.7	12.5	12.5	11.7
Mondial	1.5	1.6	1.5	1.5	1.7	1.2	1.4	1.7	2.8	3.3	3.4
Britannia	1.4	1.5	1.6	1.7	2.0	2.1	2.2	2.2	2.2	2.3	1.8
Others	6.2	6.5	6.5	6.0	5.0	6.1	4.4	4.4	4.4	4.5	5.6
Total	100.0	100.0	100.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
By total number of vehicles											
AA	59.8	58.2	54.5	52.6	48.9	47.0	47.1	47.9	48.8	48.1	47.5
RACMS	26.9	28.2	31.5	31.5	34.0	35.2	33.4	30.6	28.3	28.5	27.8
Green Flag	4.3	5.0	5.7	7.2	7.8	9.2	10.7	12.4	12.1	11.8	11.9
Mondial	2.2	2.2	2.2	2.4	3.0	2.2	2.4	2.8	4.7	5.5	5.8
Britannia	1.7	1.8	1.8	2.1	2.3	2.3	2.3	2.2	2.2	2.0	1.9
Others	5.0	4.6	4.2	4.2	4.1	4.1	4.0	4.0	3.9	4.1	5.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: MMC.

4.77. As noted in paragraphs 4.58 to 4.63, the supply of insured breakdown services occurs through different sales channels and to different categories of buyer. Any assessment of the nature and extent of competition in the supply of breakdown services needs to be considered in the light of these complexities.

Membership turnover

4.78. We asked both RACMS and Green Flag about the number of members they each gained and lost each year and the reasons why members did not renew.

RAC Motoring Services

4.79. The data we received from RACMS are shown in Table 4.19. RACMS forecast that in 1998 it would recruit about [✄] new direct retail members, equivalent to just over [✄] per cent of its direct retail membership in the previous year. However, in 1998 it also expected to lose about [✄] direct retail members who did not renew their membership. Thus, in 1998 RACMS expects to have a [✄] direct retail members (equivalent to about [✄] per cent of its direct retail membership in 1997). The turnover rates for RACMS's other breakdown service schemes are very [✄]; under the motor manufacturer schemes, for example, most motorists are only covered for the first year, after which they must obtain their own breakdown cover. Furthermore, breakdown organizations can win or lose large numbers of motorists at once, particularly when, for example, motor manufacturer scheme contracts come up for renewal (see Table 4.20).

TABLE 4.19 **RACMS: enrolments and non-renewals, 1995 to 1998**

	1995	*1996*	*1997*		*1998**	
	'000	*'000*	*'000*	*%†*	*'000*	*%†*
Enrolments						
Direct retail	246.4	244.7	210.0	12.3		
Other	1,806.9	2,082.7	2,152.3	78.8		
Of which:						
—Affinity	96.7	86.3	102.8			
—Individual	343.1	331.0	312.8			
—Motor trade	34.6	116.7	127.8			
—Motor manufacturer	1,075.8	1,070.2	1,093.2	65.0		
All sales channels	2,053.3	2,327.4	2,362.3	53.4	*Figures omitted. See note on page iv.*	
Non-renewals						
Direct retail	260.7	251.5	242.8	14.3		
Other	2,024.4	2,251.7	1,960.5	71.8		
Of which:						
—Affinity	79.3	76.0	86.5			
—Individual	350.9	309.6	330.4			
—Motor trade	32.6	89.6	100.5			
—Motor manufacturer	1,353.2	1,412.5	1,053.2	62.7		
All sales channels	2,285.1	2,503.2	2,203.3	49.8		

Source: RACMS.

*Forecast.
†As a percentage of the previous year's membership.
Note: The data exclude mandatory and fleet sales because all sales each year in these sales channels are regarded by RACMS as new sales. The affinity and individual categories are a further breakdown of intermediary sales. The motor trade category means used car sales.

4.80. Recent market research carried out for RACMS looked at the reasons why members had left the breakdown organization they were previously a member of. The findings in respect of ex-RACMS members are summarized in Table 4.21. RACMS said that those who left it because they considered it to be too expensive tended not to go on to join the AA. About 25 per cent of Green Flag's members had left their previous breakdown organization because it was too expensive.

TABLE 4.20 **Motor manufacturer schemes: number of new cars registered each year, by manufacturer and by breakdown organization used, 1987 to 1998**

'000

Manufacturer	*Current break-down organization*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998**
Ford	RACMS		8	181	600	456	424	450	496	495	476	480	
GM-Vauxhall	AA	14	25	3	355	272	291	325	334	320	310	319	
Rover	AA†	300	325	340	304	243	225	248	255	248	230	202	
Peugeot/Talbot	AA			152	134	121	129	147	150	147	158	177	
Renault	RACMS		5	107	80	71	81	101	123	131	141	166	
Volkswagen	Mondial		114	138	125	95	90	91	106	89	125	135	
Nissan	RACMS		67	20	53	68	79	94	97	97	98	101	
Fiat	AA		74	76	59	37	32	45	61	75	91	95	
Citroën	Green Flag			71	64	56	67	84	89	86	83	90	
Toyota/Lexus	RACMS			53	55	48	48	58	58	61	67	79	
Mercedes Benz	RACMS			38	34	26	28	27	37	41	47	66	
BMW	Mondial	36	42	49	43	39	41	41	46	55	57	64	
Honda	AA			27	32	28	27	31	38	46	50	56	
Volvo	RACMS		71	88	76	47	43	44	42	40	34	47	
Audi	RACMS										30	36	
Mazda	Mondial			49	28	22	22	19	18	18	26	31	
Mitsubishi	Mondial			13	15	14	12	12	11	12	18	24	
Land Rover	Mondial											23	
Daewoo	AA									13	21	22	
Seat	AA		8	11	11	8	9	9	13	11	15	19	
Saab	AA		11	12	12	9	10	9	9	12	15	17	
Skoda	AA									13	13	16	
Suzuki	Mondial							11	12	16	16	16	
Total		350	750	1,428	2,080	1,660	1,656	1,846	1,996	2,026	2,121	2,281	
New cars registered in the UK		2,078	2,278	2,373	2,076	1,666	1,664	1,846	1,983	2,020	2,106	2,251	

Source: MMC, based on a table originally supplied by RACMS.

*No volume data are available for 1998.
†The Rover contract moves to Mondial from the beginning of 1999.

The colour code is as follows: The AA | RACMS | Green Flag | Mondial | Other

TABLE 4.21 **Reasons for leaving RACMS***

Reason	*%*
Saw a better offer elsewhere	26.9
Unhappy with breakdown service	14.8
It was too expensive	13.8
Was not getting value for money	12.6
Bought a car already covered	11.4

Source: RACMS.

*These are some of the findings from market research carried out for RACMS by the Harris Research Centre in 1998. The figures in the table show the answers to a question that asked those who had been a member of a breakdown organization for five years or fewer why they had left it.

Green Flag

4.81. In 1997/98 Green Flag recruited about 121,000 new direct retail members (up from about 100,000 in each of the previous two years), equivalent to almost 22 per cent of its direct retail membership in the previous year (see Table 4.22). However, in 1997/98 it also lost about 120,000 direct retail members (up from 111,000 in 1995/96) who did not renew their membership. Thus, in 1997/98 Green Flag had a net gain of only about 1,000 direct retail members. As with RACMS, the turnover rates for Green Flag's other breakdown service schemes are very much higher.

TABLE 4.22 **Green Flag: enrolments and non-renewals, 1995/96 to 1997/98**

	1995/96	*1996/97*	*1997/98*	
	'000	*'000*	*'000*	*%**
Enrolments				
Direct retail	101	100	121	21.9
Other	434	375	404	40.3
Of which:				
—Intermediary	310	245	258	32.6
—Fleet	17	20	14	15.9
—Motor manufacturer	107	110	131	106.5
All sales channels	535	475	525	33.8
Non-renewals				
Direct retail	111	116	120	21.7
Other	331	384	356	35.5
Of which:				
—Intermediary	220	259	224	28.3
—Fleet	7	16	17	19.3
—Motor manufacturer	105	109	115	93.5
All sales channels	442	500	476	30.6

Source: Green Flag.

*As a percentage of the previous year's membership.
Note: All the data exclude mandatory schemes because all enrolments each year are all classified as new members, whether or not they are renewals.

4.82. Green Flag told us of some of the results from a 1997 research study it had commissioned to identify the motivations, intentions and characteristics of lapsed members (a sample of 2,000 lapsed Green Flag members, split evenly between direct retail and other sales channels, was used). Of those interviewed, 29 per cent had either rejoined Green Flag or intended to do so over the next month. A further 24 per cent said that they had no intention of rejoining any breakdown organization (the main reasons being that they were doing less travelling, unhappy with prices and happy with their present (lack of) cover and did not need it). Of the remaining 47 per cent, most (90 per cent) had switched to another organization. The main triggers for switching were 'forced' switching (mainly through the purchase of a car (43 per cent) or insurance (13 per cent)), and switching by choice (mainly because of price (27 per cent) and cover/service issues (23 per cent)).

4.83. The findings from Green Flag's 'backstop' questionnaire, which is sent to all members who could have renewed but who had not contacted it within 35 days of the renewal date for their policies, are shown in Table 4.23. The responses to backstop questionnaires, we were told, showed an increase in number of members switching to competitors during the period 1994/95 to 1996/97, notably [*Details omitted. See note on page iv.*] and to insurance companies (ie those offering intermediary or mandatory schemes).

TABLE 4.23 **Green Flag: reasons for non-renewals, 1994/95 to 1997/98**

	1994/95	*1995/96*	*1996/97*	*1997/98*
Sample size	2,164	8,971	7,359	5,766
				per cent
Reason				
Switched to competition	16.6	21.8	30.3	25.4
Switched to:				
AA	*Figures omitted. See note on page iv.*			
RACMS				
Britannia				
Europ Assistance				
Autonational				
Other				
New car	35.5	22.5	16.5	21.7
Cover with insurance	3.9	9.1	12.0	12.4
Used car		8.8	7.7	9.4
No car/No longer drive	14.9	10.0	6.4	5.7
Financial	6.4	6.4	6.0	3.9
Another Green Flag scheme	12.7	4.7	3.1	2.9
Other	11.7	16.9	10.9	18.7

Source: Green Flag.

Pricing and price trends

4.84. Given the complexity of the range of breakdown services currently available, the assessment of price competition and price trends for these services is problematic.

Current prices

4.85. RACMS's and Green Flag's current prices for breakdown services are listed in Appendix 4.2. A comparison of the current prices charged to renewing direct retail customers by the AA, RACMS, Green Flag, Britannia, Autonational and Direct Line is in Table 4.24. Green Flag's cheapest service is priced at £34.00, but this is for recovery only; neither the AA nor RACMS markets this level of service, though Britannia does so for members of the CSMA. At the next level of service (roadside assistance) Green Flag's price for new customers and renewals is the same as the AA's for its renewing customers (£38.00) but £5.00 less than RACMS's (£43.00). Adding the charge for personal membership to Green Flag's price increases it to £68.00. It is only at the higher levels of service that Green Flag's prices are less than those of the AA. Green Flag's prices in turn tend to be higher than those of Britannia.

TABLE 4.24 **Current membership renewal retail prices for direct retail breakdown services**

	Personal-based cover		*Vehicle-based cover*			
*Level of service**	*AA*	*RACMS*	*Green Flag†*	*Britannia‡*	*Auto-national§*	*Direct Line¶*
Recovery only	N/A	N/A	34.00	25.00¤	N/A	N/A
Roadside assistance**	38.00	43.00	38.00	32.00	32.00	35.00
Delivery to destination††	72.00	78.00	72.00	62.00	60.00	58.00
Home service‡‡	100.00	105.00§§	95.00	83.00	69.33	76.00
Hire car and accommodation¶¶	123.00	125.00§§	98.00	107.00	69.33	76.00
European cover	123.00¤¤	200.00§§	145.00***	N/A	N/A	137.00

Source: MMC, based on the companies' price lists.

*See Appendix 4.2 for further information about the various levels of service listed here. Generally, each successive level of service shown in the list is taken to include all the preceding levels (for example, home start = recovery only + roadside assistance + delivery to destination).

†Prices are for vehicle- not personal-based cover.

‡Prices are for vehicle- not personal-based cover. The prices shown here are for the general public; for members of the CSMA they are about half of those quoted here.

§Prices are for vehicle- not personal-based cover. The same prices apply to new members as well as renewing members. A 25 per cent no-call-out discount is available on all of Autonational's prices for both new and renewing members.

¶Direct Line's prices are for standard risks (all the prices it actually charges to its customers are individually underwritten on the basis of the driver and the vehicle concerned).

¤Only available to members of the CSMA.

**The breakdown service provides for unlimited amounts of free labour at the roadside from the AA and RACMS, for a reasonable time from Britannia and for up to 30 minutes from Green Flag.

††Limited to UK mainland destinations.

‡‡The first three levels of service apply only to breakdowns located more than ¼ mile from home in the case of the AA and RACMS, ½ mile for Britannia and 1 mile for Green Flag and Autonational. For breakdown services within these distances from home, motorists have to purchase extra cover.

§§A no-call-out discount of £25 applies if the breakdown service is not used during the 12-month subscription period.

¶¶Overnight accommodation is for one night only. Free car hire is for up to three days for RACMS, two days for the AA and Britannia and one day for Green Flag. In the case of Green Flag, overnight accommodation is limited to £100 per person per claim. In the case of Britannia, the free car and overnight accommodation are alternatives.

¤¤72-hour European cover (for trips to France, Belgium, the Netherlands, Luxembourg, the Irish Republic, the Channel Islands and the Isle of Man) is included at no extra cost in packages available at £72.00 and above.

***Green Flag's Total Protection package includes European motoring assistance that entitles the member to breakdown services throughout Europe throughout the membership year.

Note: The prices shown apply to one person and are for membership renewal using direct debit or continuous credit card authority. New members may be charged a higher or a lower price in the first year of membership depending on the breakdown organization concerned. There may be an extra charge for other forms of payment. Joint and family membership is normally available for an extra charge. Green Flag's optional extra charge for personal cover for the member and his/her partner in any car is £30.00 and Britannia's is £22.00 (personal cover is not available from Autonational).

Pricing policies

4.86. Prices for breakdown services charged by any given supplier vary according to the service level required and whether the customers are members of particular groups that have negotiated discounts, but they do not generally vary as between individual consumers. More recently, however, some breakdown organizations, notably Direct Line, have introduced a form of risk-based pricing where the price charged to each member is linked to that member's risk of making a claim. In addition, some breakdown organizations, including RACMS, have introduced no-call-out discounts to certain of their schemes, which have the effect of reducing realized prices in subsequent years as the discount begins to take effect.

4.87. Green Flag told us that in this industry list prices were reviewed annually. We were also told that the AA had tended to be the first to announce any changes to its list prices followed, chronologically, by RACMS and the other breakdown organizations.

4.88. Nearly all breakdown services sold by intermediaries are offered at retail prices set, not by the breakdown organization, but by the intermediary. These prices are below the direct retail list price for similar schemes offered directly by the breakdown organization itself and the services are marketed largely on the basis of their reduced price. In some cases, the third party will negotiate a rate of commission to be paid by the breakdown organization. In other cases the third party negotiates an agreed price per member which it pays to the breakdown organization; it then charges customers a retail price that yields a mark-up on the agreed price. The commission paid or net price charged will depend on:

(a) the bargaining power of the third party (determined to a large extent by the volume of business it commands);

(b) whether the breakdown coverage is mandatory or optional (prices tend to be higher for the latter because call-out rates are higher);

(c) in some cases, the breakdown organization's assessment of the risk profile of that particular intermediary's customers (for example, particular insurance companies target certain types of customers and the price charged will depend upon the risk associated with that particular customer base); and

(d) administration costs.

4.89. RACMS told us that its pricing and discount policies fell into two distinct categories:

(a) *Direct retail*. Prices were determined largely on the basis of 'cost to serve', though not without regard to the AA's prices and, to a lesser degree, those of other breakdown organizations. RACMS had priced at a slight premium to the AA over the past seven to eight years. It said that its breakdown services and position in the market were closely aligned to those of the AA and its price comparisons were therefore made predominantly with the AA. Large groups of direct retail customers (ie those with potential volumes in excess of 5,000 vehicles) were offered discounts of around 15 per cent off the first year's fee as an incentive, with the discount in part reflecting the reduced acquisition costs per customer.

(b) *Other schemes*. Tenders were priced using the cost plus margin method, with cost estimates based on a number of factors, notably the customer profile and the breakdown service levels required. In pricing its tenders RACMS took into account what it considered to be the likely prices and pricing strategies of those putting in competing tenders. Most of its motor manufacturer contracts were for three years, with costs reviewed on an annual basis and prices adjusted accordingly.

4.90. Green Flag said that it set its prices with a view to making a minimum rate of return on both new and existing business of [✂] per cent on net sales (the return being the selling price less discounts, commission, expected claims costs and allocated direct overheads). Green Flag told us that it set its list prices so that they were generally lower than those of the AA and RACMS (but see paragraph 4.85). It had a significant number of customers who regarded price as more important than brand; such customers assessed prices in comparison with the AA such that, in effect, the AA's list prices acted as a ceiling on what other breakdown organizations could charge for comparable services. Green Flag made regular comparisons with the AA's and RACMS's retail prices and from time to time with those of Britannia and Autonational. It was difficult to make price comparisons with Direct Line because of its policy of risk-based pricing.

4.91. In negotiating prices for new business in the intermediary and mandatory sales channels, Green Flag took into consideration its assessment of its competitors' prices, the past performance of similar schemes and matters such as the likelihood of developing future business. The basis for negotiating prices for renewing existing schemes was mostly the scheme's own performance, though prices were always compared against those of competitors as well as those for Green Flag's other schemes.

Price trends

4.92. Table 4.25 shows how RACMS's average realized revenues changed in real terms over the period 1988 to 1997. As can be seen, different sales channels experienced very different trends over the period, with real average revenue rising significantly in the direct retail channel during the period

1988 to 1993. Average revenue rose less in the intermediary and motor manufacturer channels and fell in the mandatory and fleet sales channels (see also paragraphs 2.89 and 2.93).

TABLE 4.25 **RACMS: real* average realized revenue per vehicle, 1988 to 1997**

£

Sales channel	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*Average annual percentage change 1988–93*	*1993–97*
Direct retail	39.75	42.66	45.33	51.39	57.53	59.10	60.13	60.25	59.16	59.33	+8.3	+0.1
Intermediary	38.25	36.82	35.34	38.21	37.23	39.14	39.91	41.28	41.40	44.87	+0.5	+3.5
Sub-total: sales to individuals	39.70	42.41	44.80	50.55	56.25	57.56	58.41	58.48	57.39	57.84	+7.7	+0.1
Motor manufacturer											–1.4	+2.7
Mandatory											N/A	–19.6
Fleet	*Figures omitted. See note on page iv.*										–8.6	+5.1
Sub-total: sales to companies											–9.8	+5.1
Total: all sales channels	37.47	36.15	31.16	34.83	34.76	34.63	35.92	37.65	38.52	37.70	–1.6	+2.1

Source: RACMS.

*Annual sales deflated by the Consumer Price Index (1997=100).

4.93. RACMS provided figures that showed real direct costs per call-out generally falling by about [✂] per cent a year over the period 1988 to 1992 and rising by about [✂] per cent a year over the period 1992 to 1997. Over the period 1988 to 1997 as a whole, real direct costs per call-out rose by about [✂] per cent a year. While the actual rates of change varied somewhat between the various sales channels, the general pattern was the same across all sales channels.

4.94. RACMS's call-out rates (ie the average number of call-outs per vehicle covered) for direct and intermediary customers rose from about 56 per cent in 1988 to about 76 per cent by 1993, then stabilized for a few years before falling back to about 71 per cent in 1997. Call-out rates for other sales channels are generally much lower (currently 21 per cent for mandatory schemes, 24 per cent for motor manufacturer schemes and 37 per cent for fleet schemes).

4.95. Combining the effects of changing real direct costs per call-out and call-out rates per vehicle gives a figure for the real direct cost of call-outs per vehicle per year. On average, across all sales channels, this rose by about [✂] per cent a year over the period 1988 to 1997 (from 1988 to 1993 it fell by about [✂] per cent a year, and from 1993 to 1997 it rose by about [✂] per cent a year). For RACMS's direct and intermediary members the real direct cost of call-outs per vehicle rose by [✂] per cent a year from 1988 to 1993 and by [✂] per cent a year from 1993 to 1997 (this second figure, RACMS pointed out, was higher than the rate of increase in real average realized revenue during the same period). For RACMS's motor manufacturer scheme members the real direct cost of call-outs per vehicle rose by [✂] per cent a year from 1988 to 1993 and by [✂] per cent a year from 1993 to 1997.

4.96. Table 4.26 shows how Green Flag's average realized revenues changed in real terms over the period 1988 to 1997. As with RACMS, different sales channels experienced very different trends over the period, with average revenues in all but the direct retail and fleet sales channels falling significantly in real terms during the period.

TABLE 4.26 **Green Flag: real* average realized revenue per vehicle, 1988 to 1997**

£

Sales channel	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*Annual average percentage change 1988–93*	*1993–97*
Direct retail	62.27	55.69	56.71	53.20	56.65	59.81	60.16	59.69	61.29	61.45	–0.8	+0.7
Intermediary	62.98	59.81	50.76	51.33	52.15	54.77	49.81	49.71	53.28	51.98	–2.8	–1.3
Sub-total: sales to individuals	62.54	57.34	54.04	52.31	54.46	57.31	54.44	53.84	56.57	56.78	–1.7	–0.2
Motor manufacturer	*Figures omitted. See note on page iv.*										–7.4	–5.6
Mandatory											N/A	–15.9
Fleet											+0.6	+1.2
Total: all sales channels	58.90	52.92	51.22	49.58	51.11	50.28	46.37	39.85	40.59	40.39	–3.1	–5.3

Source: Green Flag.

*Deflated using the Consumer Price Index (1997=100).

4.97. In Green Flag's view, the trends in average realized revenues were largely a reflection of changes in the costs of providing breakdown services to the different sales channels over the period. A key driver of these costs was call-out rates. Overall average call-out rates had generally fallen a little over the period (from 43 per cent in 1991/92 to 37 per cent by 1997/98). However, the call-out rate for direct retail customers had increased from about 43 per cent in 1991/92 to about 50 per cent in 1993/94; it had remained at about that level since. One reason for this had been the growing importance of motor manufacturer and mandatory schemes, which had the effect of moving motorists with new vehicles away from direct retail and thus increasing the average age of cars, and likely incidence of breakdowns, in the direct retail sales channel. Increasing call-out rates in fleet schemes had similarly led to rising costs and increasing average premiums. In contrast, call-out rates under the motor manufacturer schemes had declined from about 32 per cent in 1991/92 to about 16 per cent in 1997/98.

4.98. Using data we received from all the main breakdown organizations, we calculated how average realized revenue per vehicle changed in real terms over the period 1988 to 1997 in the industry as a whole (see Tables 4.27 and 4.28). As with RACMS and Green Flag separately, the different sales channels experienced very different trends over the period. Of particular note is the significant increase in real average realized revenue for direct retail sales during the period 1988 to 1993, with virtually no change since then. With the exception of motor manufacturer schemes, where the level in 1998 was the same as in 1988, real average realized revenue from the other sales channels has fallen over the last ten years, with the largest falls in the fleet and mandatory sales channels.

ABLE 4.27 **All breakdown organizations: real* average realized revenue per vehicle, 1988 to 1998**

Sales channel	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998* £	*Annual percentage change 1988–93*	*1993–98*
Direct retail	42.71	43.83	47.32	48.29	53.71	56.56	56.43	55.49	55.97	54.76	56.26	+5.8	–0.1
Intermediary	42.76	45.16	40.91	40.65	39.28	42.44	41.69	41.85	43.13	42.01	41.15	–0.2	–0.6
Sub-total: sales to individuals	42.71	43.92	46.77	47.43	51.74	54.61	54.12	53.18	53.67	52.29	53.32	+5.0	–0.5
Motor manufacturer	13.24	14.08	11.55	12.82	12.00	11.54	11.94	12.04	12.49	12.64	13.25	–2.7	+2.8
Mandatory	-	-	-	47.65	49.62	33.59	26.26	14.35	15.27	17.62	16.17	-	–13.6
Fleet	22.48	20.68	20.23	19.58	20.95	19.36	20.12	21.86	19.57	17.96	20.13	–2.9	+0.8
Sub-total: sales to companies	19.33	19.90	15.55	16.08	15.93	15.56	15.89	15.73	15.35	15.22	15.92	–4.2	+0.5
Total: all sales channels	37.90	37.50	37.12	37.65	39.66	40.56	40.30	39.26	39.15	38.21	38.61	+1.4	–1.0

Source: MMC.

*Deflated using the implied GDP deflator (at market prices) (1997=100).

TABLE 4.28 **Annual percentage change in real average realized prices per vehicle, 1989 to 1998**

percentage change

Sales channel	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Direct retail	+2.6	+8.0	+2.0	+11.2	+5.3	–0.2	–1.7	+0.9	–2.2	+2.7
Intermediary	+5.6	–9.4	+5.0	–3.4	+8.1	–1.8	+0.4	+3.1	–2.6	–2.0
Sub-total: sales to individuals	+2.8	+6.5	+1.4	+9.1	+5.6	–0.9	–1.7	+0.9	–2.6	+2.0
Motor manufacturer	+6.3	–17.9	+11.0	–6.4	–3.8	+3.4	+0.8	+3.8	+1.2	+4.8
Mandatory	-	-	-	+4.2	–32.3	–21.8	–45.4	+6.5	+15.4	–8.3
Fleet	–8.0	–2.2	–3.2	+7.0	–7.6	+3.9	+8.7	–10.5	–8.2	+12.1
Sub-total: sales to companies	–7.4	–13.1	+3.4	–1.0	–2.3	+2.1	–1.0	–2.4	–0.9	+4.6
Total: all sales channels	–1.1	–1.0	+1.4	+5.5	+2.3	–0.6	–2.6	-0.3	–2.4	+1.1

Source: MMC, based on the data in Table 4.27.

Quality of service

4.99. We found that, over the years, individual breakdown organizations operated to their own quality of service standards, and not all were comparable. As noted in Table 4.5, length of wait for breakdown assistance to arrive and the effectiveness of service given from the moment of the call through to job completion are now key factors in determining customers' satisfaction levels. This is reflected in the breakdown organizations' own quality targets and service measures, which emphasize: *(a)* the time taken to attend at the roadside (a factor that Green Flag in particular has given emphasis to); and *(b)* how quickly and effectively the call for assistance is dealt with.

4.100. RACMS said that traditionally it had measured the time taken to attend at the roadside by 'Overall Level of Service' (OLOS), ie the percentage of jobs that received roadside assistance within one hour. More recently, however, RACMS had given more emphasis to a more specific time measure 'Average Time to Attend' (ATA), ie how quickly (in minutes) it had responded to call-outs. RACMS's performance in recent years, according to these two measures, is shown in Table 4.29. Performance for several years has been strikingly stable, with the average waiting time following a call for assistance about 41 minutes and about 84 per cent of call-outs attended within an hour.

TABLE 4.29 **RACMS's time-based performance measures, 1994 to 1997**

	OLOS (%)		*ATA (minutes)*
	Actual	*Target*	*Actual*
1994	84.2	84.5	40.6
1995	84.5	84.7	40.6
1996	84.3	85.0	40.5
1997	84.3	85.0	40.5

Source: RACMS.

4.101. RACMS's measures of how quickly and effectively the call for assistance is dealt with consist of three main elements:

(a) *Call-centre efficiency*, ie the percentage of calls answered in 10 seconds (in 1997 this was about 78 per cent against the target of 85 per cent) and the percentage not answered (in 1997 this was 3.6 per cent against the target of 3.0 per cent).

(b) *Response centre efficiency*, ie how many call-outs are attended by more than one resource (in 1997 this was about 17 per cent compared with the target of 16 per cent) and how many jobs are attended by patrols (in 1997 this was about 81 per cent compared with the target of 84 per cent).

(c) *Roadside efficiency*, ie how many breakdowns are fixed at the roadside (the 'vehicle fix rate'). In 1997 this was about 68 per cent compared with the target of 72 per cent (see Table 4.30).

Jobs attended by RACMS's patrols had a much higher fix rate, 85.4 per cent, compared with those attended by RACMS's garage contractors, 22.2 per cent. RACMS's policy of sending garage contractors to jobs where the likelihood of fixing the fault at the roadside was small may, however, have had a significant effect on the contractors' performance by this measure.

TABLE 4.30 **RACMS's vehicle fix rates,* 1994 to 1997**

		per cent
	Actual	*Target*
1994	69.2	75.0
1995	70.8	71.6
1996	70.0	72.0
1997	68.0	72.0

Source: RACMS.

*That is, the percentage of all jobs that are fixed by the RACMS patrolman or garage contractor at the roadside.

4.102. As a more general comment on vehicle fix rates, RACMS said that the increased electronic sophistication of vehicles (with many sealed units that could not be repaired at the roadside) made some roadside repairs more difficult. Furthermore, manufacturers were fitting more and more items under the bonnet, thus making access to key components more difficult, and the need to make best use of the limited space meant that fewer standard parts were used. Such factors made modern vehicles inherently less fixable at the roadside than older ones. This could be offset, at least in part, by the introduction of new electronic diagnostic tools, such as battery testers and electronic fault code readers, that could be plugged into and then interrogate the on-board diagnostics systems of modern vehicles, and by increasing the availability of technical training and information for patrols and garage contractors (for example, by a technical advice 'hotline').

4.103. Probably the most well known of Green Flag's performance targets is its 'Rapid Response Pledge', ie that breakdowns will be attended within one hour of the motorist contacting its call centre. This pledge has been reinforced, during the last five years, by the promise of a £10 refund if attendance within an hour is not achieved. Questionnaires sent regularly by Green Flag to a random sample of 50 per cent of those who had asked for breakdown assistance showed that about 90 per cent of breakdowns were attended within the hour (see Table 4.31).

TABLE 4.31 **Green Flag's time-based performance measures, 1994 to 1998**

	Overall service level (per cent within 1 hour)		*Average time to attend (minutes)*	
	Actual	*Target*	*Actual*	*Target**
1994	89	90	36	35
1995	91	90	36	35
1996	90	90	36	35
1997	90	90	36	35
1998	89	90	36	35

Source: Green Flag.

*The target is to be within 5 minutes either side of 35 minutes.

4.104. Green Flag said that its call-centre target was to answer 80 per cent of incoming calls within 10 seconds. Green Flag also told us that it did not have a target for roadside fix rates and that it had only limited data on its performance in this regard. A customer satisfaction survey of Green Flag's members who had had a breakdown in 1996 suggested that about 47 per cent of vehicles had been repaired at the roadside. Green Flag further said that if this figure was adjusted to take account of such factors as the number of members with recovery-only cover, for whom the question of a roadside fix did not arise, and those repaired at the contractor's premises, it would become about 58 or 59 per cent. Taking into account these and other factors that affected the comparisons, it was Green Flag's view that its roadside fix rate was in the region of 60 per cent.

4.105. The AA told us that its quality of service targets were as follows:

(a) call centre efficiency, ie the percentage of calls answered in 15 seconds (in 1997 this was about 91 per cent against the target of 85 per cent and in 1998 is expected to be 90 per cent against a target of 93 per cent); and

(b) time taken to attend at the roadside, ie how many jobs, as a percentage, received roadside assistance within one hour and ATA (in minutes). The AA's performance in recent years on these two measures is shown in Table 4.32. In 1997 it attended about 80 per cent of call-outs within an hour and its ATA was 43 minutes. However, the AA achieved a substantial improvement in performance in 1998 (see paragraph 5.4 for the AA's explanation of the motivation behind this improvement and how it was achieved).

TABLE 4.32 **The AA's time-based performance measures, 1994 to 1998**

	Attendance within an hour (per cent)		*ATA (minutes)*	
	Actual	*Target*	*Actual*	*Target*
1994	78.3	83.0	43	38
1995	73.2	81.0	48	42
1996	77.1	78.6	45	45
1997	79.8	78.0	43	44
1998*	91.1	89.8	33	35

Source: AA.

*January to November.

(c) Roadside repair rates, ie how many breakdowns are fixed at the roadside by patrols. In 1997 this was about 84 per cent compared with the target of 81 per cent (see Table 4.33). Taking account of the proportion of the AA's call-outs that are attended by garage contractors, which tend to have lower fix rates, reduces the AA's overall roadside repair rate by about two percentage points.

TABLE 4.33 **The AA's roadside repair rates using its patrol force,* 1994 to 1998**

per cent

	Actual	*Target*
1994	82.3	83.6
1995	81.7	81.1
1996	82.6	82.0
1997	84.4	80.9
1998†	83.1	83.6

Source: AA.

*That is, the percentage of all jobs that are fixed by the AA's patrol. It includes jobs where the vehicle is towed to a place of safety or to a parts supplier, provided the repair was done by the patrol with no labour charge to the member.
†January to September.

Advertising and marketing

4.106. Though breakdown organizations seek to recruit new members in a variety of ways, maintaining and, where possible, improving the rate of renewal by their existing customers is more cost effective. In considering the effectiveness of different means of marketing and advertising breakdown services, the distinction between, on the one hand, the recruitment and retention of direct retail members and, on the other, the recruitment and retention of other members should be borne in mind.

4.107. Monitored media advertising expenditure by breakdown organizations has doubled over the last six years (from about £10 million (at rate card cost) in 1992 to about £20 million in 1997). Much of the increase occurred in 1993, 1994 and 1997. The three largest breakdown organizations (the AA, RACMS and Green Flag) between them accounted for about 98 per cent of this media advertising expenditure in 1992; by 1994 their share had fallen to about 92 per cent and it has stayed at around that level since. Taking the average over the whole period it is noteworthy that, whereas RACMS's share of advertising is similar to its overall share of sales of insured breakdown services, the AA's is lower and Green Flag's is much higher. Provisional data for 1998 suggest that Direct Line's advertising expenditure will account for about 12 per cent of the total this year, with the share accounted for by the largest three breakdown organizations falling to about 83 per cent (see Table 4.34).

TABLE 4.34 **Breakdown services: monitored media advertising expenditure,* 1992 to 1998**

Breakdown organization	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*Average: 1992–97*	*1998†*
AA	35.3	43.7	33.4	36.5	46.2	38.9	39.0	37.0
Green Flag	33.0	31.3	20.6	23.2	31.9	28.3	27.6	26.0
RACMS	29.9	20.4	37.3	33.4	14.2	24.8	26.7	20.0
Others	1.8	4.6	8.7	6.8	7.7	8.1	6.7	17.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: MMC, based on data in *Vehicle Recovery Services*, Mintel, July 1998, and from Cendant.

*At rate card cost.
†Provisional data.

RAC Motoring Services

4.108. RACMS told us that there were a number of ways in which it recruited direct retail members: most were now acquired through motor manufacturer scheme conversions, direct response advertising and RACMS's direct sales force. RACMS's annual advertising expenditure (excluding sponsorship) was about £[✂] million in 1998 compared with about £[✂] million in 1990 (see Table 4.35). Peak years were 1994, when it reached £[✂] million, and 1997 when it reached £[✂] million. Over the last two years RACMS has also spent a combined total of about £[✂] million on sponsorship. Its expenditure of about £[✂]million in 1997 on media advertising and sponsorship was aimed primarily at recruiting new direct retail customers and is equivalent to about £[✂] per direct retail customer newly recruited that year. In 1997 its total costs attributable to the enrolment, conversion and retention of individual members amounted to about [✂] million (an average cost of about £[✂] per member across all sales channels).

TABLE 4.35 **RACMS and Green Flag: advertising and sponsorship expenditure, 1990 to 1998**

£'000

	RACMS			*Green Flag**		
	Advertising	*Sponsorship†*	*Total*	*Advertising*	*Sponsorship†*	*Total*
1990						
1991						
1992						
1993						
1994			*Figures omitted. See note on page iv.*			
1995						
1996						
1997						
1998‡						

Source: MMC, based on data from RACMS and Green Flag.

*Financial year data.
†RACMS expenditure data on sponsorship is not available for the years before 1997 and has not been included in the total for those earlier years. A breakdown of Green Flag's advertising and sponsorship expenditure is not available for the years before 1994.
‡Provisional.

4.109. RACMS commented that motor manufacturer, fleet and intermediary schemes had given it access to large numbers of customers at relatively low cost. Under such schemes, however, RACMS had fewer opportunities to market other products or services to motorists. Furthermore, such arrangements were vulnerable to change and resulted in large volume shifts when contracts were not renewed.

Green Flag

4.110. Green Flag said that it advertised in a range of media, including terrestrial and satellite television and radio, the national press and classified telephone directories. While most of this advertising activity was aimed primarily at attracting direct retail customers, it did have benefits in making its brand more widely known and more attractive to intermediaries and others who marketed its breakdown schemes. Notably, between 1994 and 1998, Green Flag sponsored the England football team; this sponsorship was intended to raise Green Flag's profile generally, with associated benefits in all areas of its business.

4.111. Green Flag's advertising expenditure (excluding sponsorship) was about £[✂] million in 1997/98 compared with about £[✂] million in 1989/90 (see Table 4.35). Over the last two years it has spent a combined total of about £[✂] million on sponsorship. It had spent, Green Flag said, about £[✂] million in 1997/98 on media advertising and sponsorship aimed primarily at recruiting new direct retail customers; this is equivalent to about £[✂] per direct retail customer newly recruited that year. In 1997/98 its total costs attributable to the enrolment, conversion and retention of members amounted to about £[✂] million (an average cost of about £[✂] per member across all sales channels). We were told that Green Flag's television advertising in 1998 in the North, Midlands, Meridian and London television regions had been expensive; the cost per response of these campaigns was £[✂].

4.112. We asked Green Flag about the public's awareness of its brand and its breakdown services. Green Flag told us of the findings from a survey covering several television advertising areas.[1] It said that, in response to the question 'Can you think of the names of any breakdown organizations?', over 90 per cent of respondents spontaneously mentioned both the AA (94 per cent) and RAC (92 per cent). [

Details omitted. See note on page iv.

[1]These findings are from weekly market research for Green Flag carried out over the period from December 1997 to September 1998 in the Yorkshire, Tyne Tees, Granada, Central, Meridian and Carlton/LWT television areas (these were the areas that carried Green Flag's television advertisements).

] In Green Flag's view public awareness of its brand name would be much lower in other areas of the UK; allowing for this, Green Flag estimated that its brand's awareness figure nationally was about 35 per cent in December 1997 rising to perhaps about 50 per cent in July 1998. (Green Flag emphasized that these data referred simply to awareness, and did not show how people perceived the product or whether they were willing to buy it.) [

Details omitted. See note on page iv.

]

Product and service innovation

4.113. An important feature in this industry over the last 25 years or so has been the increased use and nurturing of networks of garage contractors as a full alternative to operating an in-house liveried patrol force. While the use of contractors goes back a very long time (up to the mid-1960s, for example, the AA relied on garage contractors to handle about 50 per cent of its call-outs compared with about 10 per cent in more recent years), undoubtedly the growth of Green Flag (which uses only garage contractors) since its launch in 1971 was a major factor in bringing this change about. Many of the other significant changes seen in this industry over the last 10 or 15 years have been in the areas of marketing and pricing.

4.114. An important development was the opening up of new intermediary sales channels in the early 1980s. From that time, Green Flag's pursuit of sales through intermediaries has been a major contributing factor to its growth. By 1988 sales through intermediaries already accounted for about a third of Green Flag's insured breakdown service revenue; by 1998 they accounted for about 47 per cent.

4.115. The AA's agreement in 1976 to supply insured breakdown services for new Rover cars was the first agreement of its type between a breakdown organization and a motor car manufacturer. Rover Group's example was not followed by the other manufacturers for some years, but from the late 1980s such arrangements were introduced by virtually all other manufacturers. In recent years one breakdown organization in particular, Mondial, has specialized in supplying the breakdown services provided under motor manufacturer schemes.

4.116. These new sales channels have provided new routes to market for those breakdown organizations without a strong brand or existing customer list.

4.117. Together with the new routes to market have come opportunities to introduce new ways of pricing breakdown services. Examples include increased use of discounts and specially negotiated prices for larger buyers. In the last year or so, the industry has also seen the development of risk-based pricing and the introduction of no-call-out discounts. These recent developments came after the imposition by some breakdown organizations, notably the AA and RACMS, of 'fair play' restrictions on the number of free call-outs allowed each year on direct retail policies.

4.118. There have also been important technological developments, notably in the areas of electronics and telecommunications. These have led to significant improvements in the design and efficiency of call centres, and provided breakdown organizations with opportunities to improve call-handling standards and develop more efficient ways of communicating with patrols and garage contractors. They have also affected the design and performance of road vehicles themselves and provided motorists with new opportunities to plan journeys and minimize delays en route.

4.119. RACMS emphasized the importance of future technological developments for its business. Although motorists would continue to require breakdown services, they were becoming increasingly concerned about the risk of delays and disruption to journeys due to traffic congestion. RACMS referred in particular to the development of ITS: these were advanced information, communications and control systems linked to both home and vehicle. RACMS is already making available a traffic information service called Traffic Alert to its members.

4.120. Both RACMS and Cendant told us that independent surveys had predicted that by 2005 about a third of new cars would be fitted with on-board navigation systems and about a fifth with telematic driver-assistance equipment. Off-board systems using response centres (for example, breakdown services, anti-theft devices, emergency assistance, traffic information and route guidance) were already being offered in some form by almost all of the major car manufacturers. These developments will require considerable new investment by breakdown organizations wishing to make use of them.

4.121. The development of ITS is mentioned in the Government's recent White Paper on the future of transport in the UK. It is noted there that ITS:

> or transport telematics, for example, is being rapidly developed by a growing sector. It could be one of the most significant transport applications of technology to emerge in recent years. It has the potential to deliver many integrated transport objectives, including comprehensive real-time travel information and guidance. ... [W]e will assist in the development of transport telematics applications, including those that are relevant for public transport, as a priority.[1]

4.122. The range of services that will be provided to motorists in the future is likely to include:

(a) the use of the Global Positioning Satellite system for directing breakdown assistance or recovery vehicles to the motorist who called for help, and in tracking stolen vehicles;

(b) instantaneous emergency call-out services linked to crash sensors, airbag sensors or panic buttons in the vehicle;

(c) remote unlocking of electronic locking systems and remote fault diagnosis using the vehicle's own on-board diagnostics system; and

(d) the provision of traffic information, route guidance services and more general information.

Such developments involve co-operation between the operators of telematics call centres, breakdown organizations and the motor car manufacturers.

Conditions of entry and growth

4.123. As the list of breakdown organizations and the dates of their entry into the UK shown in Table 4.6 suggest, a number of companies have been attracted into the market over the last 25 years. Few, however, have achieved a significant share of the market as a whole, though some have made an impact in particular sales channels. However, of the new entrants to date only Green Flag appears to have had any impact in the direct retail sales channel, at least in terms of market share (which, in value terms, reached almost 7 per cent in 1994 but has since fallen back to just over 6 per cent).

4.124. New entrants during the last five years have included Boncaster, which entered the market in 1993, and Direct Line, which entered in May 1998 (see paragraphs 4.43 and 4.44). Cendant drew our attention to a number of recent entrants, but none of them appears to have achieved a position of any significance to date. The new entrants included Inter Partner Assistance, the new name for GESA (owned by AXA and Union des Assurances de Paris) following its recent merger with SFA (also owned by AXA); FirstAssist launched by RSA in March 1998; Preferred Direct, which entered the market in 1994 and was recently bought by Eagle Star; National Autopoint Motoring Organization, which began providing breakdown services in July 1994 but ceased trading in November 1995; and Independent Recovery Services, which entered in 1995.

4.125. Against this history, we considered the possible obstacles to entry and growth in this market. None of the elements that make up breakdown services (namely insurance, call-centre

[1]See paragraphs 4.229 and 4.230 in *A new deal for transport: better for everyone*, Cm 3950, The Stationery Office, July 1998.

facilities and physical roadside assistance) involves significant sunk costs or in other ways presents formidable barriers to entry. All three elements can be provided by third parties. Besides the AA and RACMS, only Mondial of the other breakdown organizations has in-house patrols (see paragraph 4.39).

4.126. Insurance can be arranged through brokers. Developments in call-centre technology in recent years have led to an increase in the number of call centres able to carry out a service for third parties. As regards the breakdown services themselves, there are about 2,500 garage contractors in the UK (see paragraph 4.46), most of which are now said to be of sufficient quality as to provide a large pool from which a new entrant can establish a national contractor network at relatively little cost.

4.127. In the light of this, and bearing in mind that new entry and growth have been relatively successful in sales channels other than direct retail, it appears to us that the main obstacle to entry and growth in this market is the relatively large sunk costs required to establish a brand name able to compete with the longstanding and trusted AA and RAC brands. Green Flag's advertising and promotional expenditure has been considerable (see Table 4.35); yet even with these levels of expenditure, public awareness of the Green Flag brand had reached only about 35 per cent nationally by December 1997, though it continued to grow up to mid-1998 following Green Flag's sponsorship of the England national football team in the World Cup competition in France (see paragraph 4.110). Even Direct Line, already well known as a motor insurer, felt the need for what it termed significant advertising expenditure in support of its own breakdown service which it launched in May 1998 (see paragraph 5.44).

4.128. The success of smaller breakdown organizations in sales channels other than direct retail illustrates how a company can enter and grow in this market on the back of a well-known brand and customer database, such as those of major insurance companies and motor car manufacturers. Indeed, some of these contracts may be with companies that prefer the breakdown organization not to have a familiar brand name, as the success of Mondial in winning contracts to supply motor manufacturer schemes testifies.

Economies of scale and scope

4.129. We distinguish here between the provision of insured breakdown services and the selling of such services to motorists. To sell such services, the retailer (whether a breakdown organization or an intermediary supplier of some sort) needs a strong brand name and good marketing skills and/or access to an existing and relevant customer database. The service provider would also need to have adequate billing and payment facilities.

Insurance underwriting

4.130. Insurance risk can be underwritten in-house (if the breakdown organization is an authorized insurer or exempt from the need for authorization), by an underwriter in the same group or by an external underwriter. Green Flag's experience indicates that the ability to underwrite within the group adds significantly to profitability (see paragraph 3.42). Once that stage has been reached, however, while there are some economies of scale, they are generally not significant in the context of this industry.

Call centres

4.131. Call centres benefit from economies of scale. At the lower end, a minimum level of staffing and facilities is required to provide a reasonable quality of service over 24 hours a day all year round. Above this level, there are economies of scale in staff costs (with the average waiting time between calls falling as the total number of calls increases) and some benefits in terms of better telephone service charges.

Breakdown services

4.132. Roadside assistance and recovery can be provided by in-house patrols, by garage contractors or by a combination of the two. In the case of in-house patrols higher volumes of work and high utilization rates reduce unit costs significantly. The provision of the roadside assistance through a patrol force, as opposed to garage contractors, requires the provision of command and control dispatch facilities as well as the costs incurred in maintaining and equipping the patrol force.

4.133. RACMS told us that, in general terms, an individual patrolman would need to attend around 1,000 jobs a year before starting to be more cost effective than the use of garage contractors to attend those jobs. The greater the level of patrolmen's activity above 1,000, the more cost effective the patrol force would be. However, the figure of 1,000 was based on the additional direct cost of individual patrols and excluded any consideration of the overheads (dispatch, management and support services) incurred by a patrol force: for a liveried patrol force as a whole, the minimum level of activity needed for all relevant costs to be covered and to provide for a contribution to profits as well was around [✂] jobs a year on average, in RACMS's view. In 1997 the average number of jobs actually attended by RACMS's patrols was about [✂] per patrol. The AA noted that whilst a patrol operating in areas such as central London might typically attend between seven and ten breakdowns per shift, in very rural areas the figure would be down to three or four per shift.

4.134. The costs of setting up a network of garage contractors are relatively small; such contractors are used to dealing with a number of breakdown organizations. Once in place, the network of garage contractors can be reduced or expanded fairly easily as required. As garage contractors are paid per breakdown attended, the only economies arising from a larger number of call-outs are in the areas of head office overheads (network management) and the quality control and training costs of the garage contractors. We were told by Green Flag (and others) that any extra bargaining power a larger breakdown organization might have with its garage contractors yielded only slightly lower call-out charges.

Marketing breakdown services

4.135. Larger discounts are usually available on advertising costs as the amount of advertising expenditure increases. As regards promotional literature, there may also be larger discounts for longer print runs. Apart from these, there are few economies of scale to be achieved in sales and marketing. There are, however, economies of scale in billing and payment systems. Investment in electronic billing and payment systems can reduce the variable costs involved in dealing with both members and garage contractors.