

5 The UK car market

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Introduction

5.1. This chapter covers two main topics—market definition and the supply of new cars in the UK. Before we discuss each of these main topics, we set new car registrations in the UK into context by briefly comparing them with used car sales in the UK and with new and used car sales in other European countries.

5.2. The section on market definition starts with our framework of analysis. It then looks at the geographical market. Turning to the product market we begin with a summary of the views of the suppliers

and of other parties before looking at evidence from consumer surveys. We then discuss the characteristics of cars, price levels, changes in new and used car prices and changes in demand.

5.3. The section on the supply of new cars in the UK begins by looking at the level and growth of new car registrations. We then analyse supply by segment and by type of customer. Finally, we look at the shares of the suppliers for all registrations, for registrations to different types of customer, for registrations in particular segments and at advertising and marketing. Most of our analysis of new car registrations in the UK is based on the period up to and including 1998. However, out-turn data for 1999 became available in the last three weeks of our inquiry. We have taken account of these data in our analysis.

New and used cars in the UK

5.4. At the end of 1998 there were just over 22 million cars licensed in the UK, an increase of 2 per cent compared with 1997. It is not easy to estimate the total number of cars in the UK principally because of a substantial number of users who evade payment of VED and thereby go unrecorded. The SMMT estimated that in 1998 there were 26.3 million cars in the UK, an increase of 2.7 per cent compared with 1997. About 2.25 million were registered as new cars in 1998 and about 7.5 million were sold as used cars in the same year.¹ These figures show that for every new car registered in 1998, about three used cars were sold.

5.5. The average age of cars in the UK in 1998 was estimated at 7.2 years, compared with 6.2 years in 1990. Omnica, which carries out a survey of 1,000 motorists each month, estimated that in 1998 the value of cars sold (both new and used) reached £57.6 billion, an increase in real terms of 4.5 per cent compared with 1997. New car sales were valued at £28.4 billion and used car sales at £29.2 billion. It follows that the average value of a new car sale in 1998 was about £12,500, compared with about £4,000 for a used car sale. Appendix 5.1 shows the trend in various car statistics between 1988 and 1998.

New car sales in Western European countries

5.6. Over 14 million new cars were sold in Western Europe in 1998 (see Table 5.1).

TABLE 5.1 Sales of new cars in Western Europe by country, 1998

	Volume '000	%	Cumulative %	New cars sold per 1,000 population
Germany	3,735.9	26.1	26.1	46
Italy	2,364.2	16.5	42.5	41
UK	2,247.4	15.7	58.2	38
France	1,943.6	13.6	71.8	33
Spain	1,192.2	8.3	80.1	30
Netherlands	543.1	3.8	83.9	35
Belgium	452.1	3.2	87.0	44
Switzerland	296.9	2.1	89.1	42
Austria	295.9	2.1	91.2	37
Sweden	253.4	1.8	92.9	29
Portugal	248.4	1.7	94.7	25
Greece	180.2	1.3	95.9	17
Denmark	159.7	1.1	97.0	30
Ireland	145.7	1.0	98.0	39
Finland	125.8	0.9	98.9	24
Norway	118.0	0.8	99.7	27
Luxembourg	35.9	0.3	100.0	85
Total	14,338.5	100.0		37

Source: Commission calculations based on ACEA data.

Note: Totals may not sum because of rounding.

¹The Used Car Market, British Car Auctions (BCA), 1999.

5.7. In 1998, new car sales in European countries ranged from 3.7 million in Germany to 36,000 in Luxembourg. Five countries (Germany, Italy, UK, France and Spain) accounted for about 80 per cent of the new car sales in Western Europe. Of these five countries Germany is by far the largest, accounting for 26 per cent. Italy, the UK and France are broadly the same size, each with about 2 million new car sales. Spain with its 1 million sales is about half the size of each of these three countries.

5.8. In 1998 Luxembourg had much the highest number of new car sales per thousand population (85). Germany had the second highest number, 46 new car sales per thousand population. The UK had the seventh highest number of new car sales per thousand population (38), close to the overall average of 37.

Used car sales in Western European countries

5.9. Table 5.2 shows used car sales and the ratio between used and new car sales for various EC countries in 1998.

TABLE 5.2 Used car sales and the ratio between used and new car sales in various EC countries, 1998

	<i>Used car sales m</i>	<i>Used car sales per 1,000 population</i>	<i>Used/new car sales ratio</i>
UK	7.5	126	3.3
Germany	7.4	91	2.0
France	4.7	80	2.4
Italy	2.2	38	0.9
Netherlands	1.7	110	3.2
Spain	1.4	35	1.2
Belgium	0.7	63	1.4
Portugal	0.5	49	1.9
Denmark	0.4	67	2.2
Sweden	0.3	30	1.1
Norway	0.3	77	2.4

Source: The Used Car Market, BCA, 1999, and data from the SMMT.

5.10. In 1998 Germany (7.4 million) and the UK (7.5 million) had a similar number of used car sales but in terms of sales per thousand population the UK had a much higher number (126) than Germany (91). The UK had the highest ratio of used to new car sales (3.3). The Netherlands was the only other country with a ratio of greater than 3 (3.2). The other two countries (France and Italy) with a similar number of new car sales to the UK had much lower sales of used cars than the UK (4.7 and 2.2 million respectively).

Market definition

5.11. We now turn to the question of market definition. We begin by setting out our framework for analysis; we then look at the geographical market and finally the product market.

The framework for analysis

5.12. In deciding the appropriate market for competition analysis we have to determine the geographical extent of the market and the products that compete in that market. In order to do this we look in particular at the extent of substitution away from products sold in various locations from the standpoint of consumers (demand-side substitution) and suppliers (supply-side substitution), in response to a small but non-transitory price increase above the competitive level. Two products are seen as falling within the same market where consumers switch between them, or where suppliers switch between them, in response to a general increase in the prices of either. A greater number of substitutes gives a wider

market definition. Such a test is normally referred to as the hypothetical monopoly test, and is used by the US Department of Justice, by the European Commission and by the OFT for defining markets.¹

5.13. In order to gain an understanding of the possibilities for demand- and supply-side substitution the following aspects of products should be examined:

- (a) their characteristics;
- (b) their price levels;
- (c) their relative price changes; and
- (d) changes in the pattern of demand.

Each of these areas should be investigated but the outcome should not be considered in isolation. The eventual decision on market definition will involve an element of judgment as it is likely that the evidence will be incomplete.

5.14. In addressing the question of market definition we are considering substitution in response to a small price change, not all products that are alternative ways of fulfilling the same physical function. For example, whilst bicycles and cars are clearly alternative means of transport, they are unlikely to be part of the same economic market.

5.15. A concept relevant to market definition in this inquiry is that of a continuous chain of substitution in demand. This can be applied in the car industry context both in relation to model ranges of cars and to their age. As regards the model range of the car, the concept can be illustrated by using some of Ford's new cars in a simple example. We begin by assuming that for consumers the Fiesta is a substitute for the Focus and the Focus is a substitute for the Mondeo. These assumptions raise the question as to whether the Fiesta and the Mondeo should be in the same market even if the Fiesta is a poor substitute for the Mondeo. In this example, the Fiesta, the Focus and the Mondeo are links in a chain of substitution. It is legitimate to treat chains of products as part of the same market as long as each link of the chain is sufficiently strong to ensure that all products in the chain are affected by a common price constraint. As regards the age of the car, the question is whether used cars of different vintages are a substitute for new cars.

5.16. In order to identify the possible links in the chain of substitution the following questions should be addressed:

- (a) How close from the perspective of the consumer are the substitutes at either side of the link in the chain?
- (b) Have relative prices of the products at either side of the link in the chain diverged and, if so, what evidence is there that consumption patterns have changed in response?

5.17. In assessing the strength of chains of substitution the standard question should be asked: would a hypothetical monopoly supplier of one element of the chain find it profitable to raise its price out of line with those charged by suppliers of supposedly linked products? In this inquiry, one of the questions is whether a hypothetical monopoly supplier of new cars would find it profitable to raise its price out of line with those charged by suppliers of nearly-new or other used cars.

5.18. Even if the demand-side links are not strong, a wider market definition might still be justified for supply-side reasons, for example the ability of a supplier of small cars to switch to making lower medium-sized cars if the price of the latter rose. Ford told us that manufacturers were increasingly producing different model ranges using single production platforms, with the implication that production of different ranges could be switched relatively easily. It gave the example of Volkswagen AG group which used the same platform to produce the Audi A3 and the Volkswagen Golf, both in the lower medium

¹US *Horizontal Merger Guidelines*, Department of Justice and Federal Trade Commission, 1992; *Official Journal of the European Communities*, 97/C 372/03, 1997; *Market definition*, Office of Fair Trading, 1999.

segment, and the Skoda Octavia, which is in the upper medium segment (see paragraph 5.90). Supply-side reasons could also justify retail and fleet customers (see paragraphs 5.91 and 5.92) being in the same market, through the ability of a supplier to retail customers to switch to supplying fleet customers or vice versa.

5.19. We begin our analysis of market definition by looking at the geographical market. We then look at the product market.

The geographical market

5.20. We have to establish whether the market is local, regional, national or international. We deal in turn with whether the UK is part of a wider geographical market and then with whether the UK itself is a single market.

5.21. All the main suppliers held the view that the geographical market was the UK (see Chapter 9 for the views of the suppliers). Ford stated that the manufacture and sale of cars was a global business (at least in respect of the volume manufacturers) with 44 per cent of the cars which it sold in the UK in 1998 being imported and 40 per cent of the cars which it manufactured in the UK being exported. However, it told us that for the purposes of our inquiry the focus of the investigation should be the supply of cars in the UK. It said that this was because the distribution of cars in different countries tended to be determined by national characteristics.

5.22. We commissioned the market research firm RSGB to carry out a telephone survey into aspects of UK consumers' behaviour in buying new cars, including their attitudes to buying new cars outside the UK. The survey was carried out in October 1999. It included the views of 620 respondents. 29 per cent of the respondents had bought a new car in 1999, 45 per cent had bought one in 1998 and 22 per cent had bought one in 1997.

5.23. The RSGB survey found that 87 per cent of respondents when thinking about buying a new car had not contacted car brokers or importers or overseas dealers or thought about importing a new car through their own efforts. 84 per cent of respondents, however, said that they believed the prices of new cars in the UK were higher than those in other EC countries. Of these respondents, 78 per cent said that UK prices were higher by 15 per cent or more, 41 per cent thought they were higher by 25 per cent or more and 23 per cent thought they were higher by 30 per cent or more. 61 per cent of respondents said that prices in other EC countries would have to be cheaper by 15 per cent or more for them to consider buying a new car outside the UK and 10 per cent said that they would not consider buying a new car outside the UK.

5.24. Respondents in the RSGB survey gave a number of reasons why they did not consider the possibility of buying from outside the UK (see paragraph 7.195). At least 5 per cent of respondents named one or more of the following: no thought given to it (the reason given by far the highest number of respondents), ignorance of how to go about it, too much time needed or too many difficulties, problems expected if something went wrong, and too much travelling. Further reasons given were that waiting time was too long; suitable finance terms would not be available; no trade-in would be included; a discount could not be negotiated; brokers and importers were not reliable; the dealer could not be relied on to deliver the car; the warranty would not apply in the UK; the car could not be serviced in the UK; and there would be language difficulties. Three of these reasons—too many difficulties, waiting time and trade-in—could be related to the fact that the UK differs from all EC countries except Ireland in that the rule of the road is to drive on the left.

5.25. Suppliers use national sales organizations in the different countries. These organizations decide, to a large extent, the models that will be sold in a particular country. Some models that are available in other EC countries are not available in the UK. For example, Renault told us that one of its parent's model ranges, the Twingo, was not sold in the UK. It stated that the group's three core models (generally identified as RN, RT and RXE) were offered in all EC countries and with a basic minimum level of specification. Renault said that the models and variants of Renault cars sold in the UK reflected principally an assessment of what British customers were likely to buy.

5.26. Suppliers also have different sets of list prices for various European countries. These prices in the UK move independently of prices in other EC member states (see paragraphs 7.187 to 7.189 and

7.238 to 7.256). This would not happen if the UK were part of a wider market because enough UK consumers would buy new cars overseas, if UK prices rose relative to those elsewhere, to make the relative price rises unprofitable for the suppliers. In practice, however, the number of new cars imported into the UK, by parties other than the suppliers, from other EC member states is small (see paragraphs 7.190 to 7.194). The SED system prevents widespread arbitrage by brokers as dealers are forbidden by their agreements with suppliers from selling to brokers other than intermediaries who have written authority to buy a specific vehicle on behalf of a named final customer (see paragraph 6.88).

5.27. Use of the Internet could increase the extent to which UK consumers consider the possibility of buying a new car overseas. At the moment use of the Internet as part of the new car-buying process is not widespread in the UK. The RSGB survey (see paragraph 5.22) found that 4 per cent of consumers who had acquired a new car since July 1997 had used the Internet when deciding which new car to buy, while for those buying in 1999 the figure was 6 per cent. Autobytel, one of the leading providers of on-line information on new cars, believes that UK consumers will use the Internet much more for buying new cars in the future in the same way that US consumers use it now. In its recent report on on-line car buying¹ Autobytel states that 40 per cent of all car buyers in the USA have used the Internet as part of the buying process. In the same report Autobytel refers to a forecast by Fletcher Research, a market research company that specializes in producing data and reports on the UK and European Internet services, of around 440,000 purchase decisions for new cars on-line in the UK by 2003. The suppliers told us that they expected the use of the Internet as part of the new car-buying process in the UK to grow. They said, however, that the Internet would be used mainly for collecting and comparing data on new cars and not for actually buying the new car. They said that consumers would still need to 'touch the metal'.

5.28. With regard to market definition, Northern Ireland might be seen as being different to the rest of the UK because it is joined by land to the Republic of Ireland rather than the rest of the UK. In 1998, Northern Ireland accounted for less than 3 per cent of the new cars registered in the UK. This compares with 4 per cent for Wales, 8 per cent for Scotland and 85 per cent for England. We asked the top six suppliers whether they treated Northern Ireland differently to other parts of the UK and we asked the RMI whether dealers did the same. Ford told us that its list prices and its gross dealer margins were the same throughout the UK. It said that in addition, all of its marketing offers, such as free insurance and subsidized finance, applied throughout the UK. It stated that from time to time there might be some differential Ford-funded discounts offered in relation to a particular model range which might not apply throughout the UK, for example in the first two quarters of 1999 Ford offered a £[300] bonus to its dealers in Northern Ireland in order to promote sales of old stock Mondeos that did not apply throughout the UK. The RMI told us that discount structures in Northern Ireland were identical to those in other parts of the UK. It said that on occasions Northern Ireland dealers received additional bonuses to compensate for the parallel imports from the Republic. It stated that these additional bonuses were not routinely given: they were given on an irregular basis by suppliers as and when they saw a problem. Due to the sample size, the OFT discount survey (see paragraphs 7.31 and 7.32) allowed us to compare discounts between Northern Ireland and other regions of the UK for only one supplier. This analysis showed that discounts in Northern Ireland were in line with those in other parts of the UK. Parallel imports to Northern Ireland have grown from less than 600 in the mid-1990s to 1,500 in 1997 and to 6,800 in 1998. Virtually all of these imports are from the Republic. In 1998 parallel imports accounted for about 10 per cent of the new cars registered in Northern Ireland.

5.29. On the question whether the UK forms a single market, the OFT referred to dealers of various brands in the same territory and dealers of the same brand in different territories as competing with each other. It said that the evidence available at the time of its investigation suggested that there was a geographic chain of substitution within the UK. The suppliers provided us with data which showed that dealers sold many new cars outside their designated territory (see paragraph 6.18). For example, an average of 52 per cent of new cars sold by Ford dealers in 1998 were sold to customers outside the dealer's territory. Peugeot and Rover dealers had similar figures, about 50 and 48 per cent respectively. For Renault dealers the figure was slightly lower, at 43 per cent. Vauxhall provided figures split between retail and fleet customers (see paragraphs 5.91 and 5.92). These showed that on average 39 per cent of dealers' sales to retail customers, and 79 per cent of their sales to fleet customers, were to customers outside dealers' territories. Ford's proportion for retail customers alone was 38 per cent. The RSGB survey (see paragraph 5.22) found that on average customers visited between two and three dealers when buying a new car. CA carried out a survey of new car buyers in March 1999. One of the questions it asked was

¹The Second UK On-line Car Buying Report, Autobytel, 1999.

how far respondents would travel to pick up their chosen car. It found that on average consumers would travel about 25 miles. Other factors relevant to the definition of the geographical market are that list prices cover the whole of the UK and that there is no clear evidence of transaction prices differing by region.

5.30. Our conclusion on the relevant geographical market and the reasons for our decision are set out in paragraphs 2.53 to 2.63. We now examine the factors that need to be taken into account in reaching a decision on the relevant product market.

The product market

5.31. In seeking to determine the relevant product market we are faced with a number of issues. The first issue is whether the relevant market is that for new cars or whether it also includes used cars or some category of used cars. The second issue is whether the relevant market is based on particular types of cars (defined by size or other characteristics—see paragraphs 5.89 and 5.90). In this case there might be a market for small cars, a market for lower medium cars and so on. The third issue is whether particular types of customers (for example, fleet operators—see paragraphs 5.91 to 5.105) form relevant markets. In this case there might be a market for cars sold to private customers, for cars sold to fleet customers and for cars sold to business customers.

The views of the suppliers on market definition

5.32. Full summaries of the views of the suppliers are given in Chapter 9. In this section we summarize their views on the definition of the product market. Few of the suppliers saw new cars as forming a separate economic market and only one saw any justification for markets being formed of particular types of car or particular types of customer. Most saw the economic market as consisting of all new cars and some grouping of used cars which could be categorized as nearly-new cars. Three suppliers (Ford, VW and Toyota) gave definitions that differed from those of the majority.

5.33. Ford told us that all cars (both new and used) formed part of the relevant economic market. It stated that, as in many durable goods markets or where there was significant recycling, either acquiring a second-hand car or retention of the consumer's existing car was a close substitute for buying a new car. In its view there were continuous chains of substitution between cars of different ages within a particular segment and between new cars with relatively low specifications and older cars with relatively high specifications. Through such chains of substitution, the discipline of price competition between new cars was extended to older cars and vice versa. Ford said that this discipline had been increasing; as cars had become more reliable and durable, used cars had become increasingly viable alternatives to new cars.

5.34. VW said that there was a single economic market, namely the market for new cars, although there was an overlap between the markets for new and nearly-new cars.

5.35. Toyota said that new cars formed a defined market because in the main consumers shopping for new cars had psychologically entered the new car market place. Toyota also gave a number of other definitions that seemed to depend on the purpose for which the definition was being used. It told us that nearly-new cars up to six months old (for example, ex-rental cars, ex-dealer demonstrators, ex-manufacturer company cars) were potentially seen by consumers as competing with new cars. This was particularly the case where a manufacturer's warranty was given with the used car. With regard to different types of customer (private, fleet and business) Toyota said that these were treated as different economic markets for certain purposes. Toyota also stated that for certain analytical and strategic purposes it treated each segment as a separate economic market. It added, however, that over time, as further new product concepts (for example, small-car-based multi-purpose vehicles) were launched, it might become inappropriate and of little value to view each segment as a market.

The views of other parties on market definition

5.36. Both the RMI and CA told us that new cars constituted an economic market but that this definition was becoming blurred with the development in the sales of nearly-new cars.

Nearly-new cars

5.37. There is no accepted definition of a nearly-new car. Some of the definitions given by the suppliers are set out below:

- (a) Vauxhall—cars under one year old and under 10,000 miles. Vauxhall stated that this might change as the effects of the introduction in 1999 of two registration plate changes per year filtered through to the used car market.
- (b) Rover—current models which were less than two years old with low mileage and a full service history.
- (c) Renault—cars up to one year old which were sold as used by fleet customers or via manufacturers.
- (d) Nissan—cars less than one year old.
- (e) Peugeot—cars less than one year or with low mileage.
- (f) Fiat—cars under six months old (for example, ex-fleet).
- (g) Honda—cars less than one year old.
- (h) BMW—for volume suppliers, typically current models which were less than two years old with a mileage of 10,000 miles or lower and a full service history. For prestige makes, could include older cars.
- (i) Toyota—up to six months old (for example, ex-rental cars, ex-dealer demonstrators, ex-manufacturer company cars).
- (j) DaimlerChrysler—low mileage used cars, such as ex-dealer demonstrator vehicles and service courtesy cars.

5.38. Pre-registered cars form one category of nearly-new cars. A pre-registered car is a new car that is registered by a supplier or dealer before its sale to a customer. In some cases these pre-registered cars will be exactly the same as new cars with the same (delivery) mileage. In other cases the pre-registered cars will be older stock with the same (delivery) mileage as new cars but with differences in specification.

Evidence from consumer surveys

5.39. Before analysing the definition of the product market in terms of the four aspects noted above (see paragraph 5.13) we look at evidence from consumer surveys that illustrates consumer behaviour when buying a new car and at evidence that might be useful when identifying the appropriate market.

Consumer behaviour

5.40. 45 per cent of respondents told RSGB that they considered only one make of new car, 17 per cent considered two makes, 16 per cent considered three makes and 19 per cent considered four or more makes. The average was between two and three makes of new car.

5.41. When deciding which new car to buy many consumers rely largely on dealers for information. There are other sources of information. 22 per cent of respondents in the RSGB survey said that they used car magazines. Of these respondents, 34 per cent said that they normally read these magazines and 63 per cent said that they looked at them because they were thinking of buying a new car. Of those

respondents using car magazines and/or the Internet (24 per cent in total), 50 per cent did so to obtain details on one make of car and 35 per cent did so to obtain details on different makes of car. 22 per cent (5 per cent of the whole sample) of users of car magazines and/or the Internet decided on this basis what make/model they wanted, 27 per cent narrowed down their choice of make, 7 per cent widened the choice and for 33 per cent using car magazines and/or the Internet made no difference to their choice. RSGB asked about the importance of various financial factors (see paragraphs 7.110 and 7.111). 6 per cent of respondents said that they obtained information on these factors from car magazines.

Appropriate market

5.42. The 1998 New Car Buyers survey, which is a survey carried out on behalf of the leading European car suppliers, reported that 24 per cent of respondents who had bought a new car stated that they had considered a used car as an alternative. Vauxhall told us that, based on one of its own surveys of new car buyers carried out in May 1999, 25 per cent would definitely and a further 33 per cent would probably consider a nearly-new car for their next purchase. The 1996 Lex Report on Motoring showed that, for those buying new cars over the previous two years, 67 per cent did not consider nearly-new cars, 30 per cent did consider but did not buy one and 3 per cent considered and bought. Lex defined nearly-new cars as being less than six months old or as having completed less than 5,000 miles. However, none of these surveys tested the reaction of consumers to small price changes which would be more relevant for market definition purposes (ie trying to establish the degree of substitutability) than establishing the existence of alternatives.

5.43. Table 5.3 shows the breakdown of used car sales in 1998 by age of car. 45 per cent of respondents bought a used car which was nine years old or more. 13 per cent bought a used car that was two years old or younger. DVLA data provided to Experian and published by *Motor Trader*¹ show that in the second quarter of 1999, sales of nearly-new cars (defined as cars less than 12 months old) accounted for 4.7 per cent of the sales of used cars up to ten years old. Experian estimated that in 1998 sales of cars up to ten years old accounted for about 60 per cent of all used car sales. Applying this proportion to the 4.7 per cent suggests that sales of nearly-new cars, as defined by Experian, accounted for 2.8 per cent of all used car sales or just over 200,000 sales in 1998. However, this estimate is lower than some of the estimates for the number of pre-registered cars (see paragraph 5.53) which are only one category of nearly-new cars.

TABLE 5.3 Breakdown of the volume of used car sales by age of car, 1998

Age of used cars (years)	%
0-2	13.2
3-5	22.3
6-8	19.5
9 and over	<u>45.1</u>
Total	<u>100.0*</u>
Volume (m)	7.5

Source: Commission calculations on data in the BCA's *The Used Car Market*, 1999.

*Totals do not sum because of rounding.

5.44. In a consumer survey carried out for the BCA's 1999 report on the used car market, BMRB, which interviewed 2,400 UK adults aged 17 and over during late May and early June 1998, found that 81 per cent of motorists stated that they expected their next car to be a used car. In response to a given number of suggested statements as to why they bought a used car rather than a new one, 56 per cent of used car buyers said that they could not afford a new one. 37 per cent said that used cars were better value for money, 24 per cent said that they always bought used cars and 23 per cent were worried about depreciation (see Table 5.4).

¹*Motor Trader*, 18 October 1999, pages 20 and 21.

TABLE 5.4 Possible reasons for buying a used car rather than a new one, 1998

	%
Could not afford a new car	56
Used cars better value for money	37
Always buy used cars	24
Worried about depreciation	23
Needed a car quickly	13
More choice when buying used cars	9
Another reason	5
Don't know	2

Source: The BCA's *The Used Car Market*, 1999.

5.45. We now look at the prospects for demand- and supply-side substitution for the three issues of product market definition: new and used cars; particular types of car; and particular types of customer. The evidence is presented under each of the four aspects listed in paragraph 5.13.

Characteristics

5.46. Cars have many characteristics. Some apply to all cars, for example: size; engine capacity; shape; reputation for reliability and safety; comfort; colour; and fuel efficiency. Others may or may not be included depending on specifications, for example: airbags; side impact bars; anti-lock brakes; traction control systems; catalytic converters; air conditioning; sunroof; leather upholstery; metallic paint; and in-car entertainment.

5.47. Appendix 5.2 shows that in answer to the question which features are extremely important when buying a new car, more respondents (61.6 per cent) listed driver's seat comfort than any other feature. However, almost as many respondents said that safety features (60.2 per cent) and quality finish/workmanship (59 per cent) were extremely important. The proportion saying that driver's seat comfort was either extremely or very important was again the highest at 91.9 per cent, whilst the proportion referring to quality finish/workmanship was 89.3 per cent, safety features 89 per cent and ride comfort 88.4 per cent. Six characteristics were listed as extremely important by over 50 per cent of respondents and 28 characteristics as extremely or very important.

5.48. A car's characteristics vary between and within model ranges, and with the age of the car (newer cars are likely to have greater warranty cover and higher specification than older cars, and may in general be more reliable).

5.49. The question of differences in specifications within a model range can be demonstrated by using the Vauxhall Astra as an example. In 1998, there were seven models in the Astra range: Envoy, LS, Club, Sport, CD, SRi and CDX. There are many more variants if the style (hatchback, saloon or estate), the engine size and the fuel type are taken into account. In terms of what could be regarded as optional extras, the LS model includes four features as standard, including remote control central locking, whereas the CDX has all the features of the LS (with the exception of slide/tilt glass sunroof with interior blind) but also another eight features as standard, for example front passenger's airbag.

5.50. The question of differences in specification between model ranges and therefore between segments can again be demonstrated by using Vauxhall as an example. In 1998, Vauxhall offered nine model ranges: Astra, Calibra, Corsa, Frontera, Monterey, Omega, Sintra, Tigra and Vectra. Three of these model ranges (Astra, Corsa and Vectra) accounted for 88 per cent of Vauxhall's new car registrations in 1998. There are some differences in the models offered between model ranges, for example the Corsa but not the Astra or Vectra had a model known as the Merit. There are also differences between the specifications which are offered as standard within each of these models. An obvious difference between model ranges is the size of the cars themselves.

5.51. The relevance of different ages can be demonstrated by using Ford's cars as an example. In 1994 the Ford Fiesta LX included neither power steering nor air conditioning as standard. Power steering was fitted as standard in 1998 and air conditioning in 1999. Similarly the Escort LX, which was launched in 1990, had power steering fitted as standard in 1995 and air conditioning in 1998, whilst the Ford Scorpio Ghia and Ford Mondeo LX received air conditioning fitted as standard in 1997 and 1998 respectively. Ford told us that safety features had improved markedly over time across its range of cars. It said that the proportion of all cars manufactured in the EC which had driver airbags fitted as standard rose by around 15 percentage points (from 65 to 80 per cent) between 1996 and 1998, while the proportion fitted with side impact airbags increased fivefold in the same period (from 5 to 25 per cent).

5.52. A number of suppliers told us that there was very little (if any) difference between the physical characteristics of a new car and those of a nearly-new car. This applied in particular to one category of nearly-new cars: the pre-registered car (see paragraph 5.38).

5.53. There are no accepted data on the number of pre-registered cars. In an article in *Motor Trader* dated 24 May 1999 Ian Robertson, an analyst with the EIU, estimated that pre-registered cars accounted for about 20 per cent of total new car registrations in April 1999. The journal *Marketing*¹ referred to an estimate of 26 per cent for September 1999. The motoring magazine *What Car?* estimated that there were 600,000 pre-registered cars (27 per cent of all new cars) registered in 1998. We were told that these estimates were based on a knowledge of the industry and conversations with people in the industry. *What Car?* told us that its estimate was also based on results from various mystery shopping exercises and Ian Robertson told us that his estimate was also based on analysis of registration data.

5.54. The suppliers told us that they did not know the number of pre-registered cars as they did not know how many cars were pre-registered by their dealers. Most suppliers said that they themselves pre-registered cars on only a small scale, and some said they did not do so at all (see Appendix 5.3). Ford, for example, stated that it did not pre-register cars but that in isolated cases (two or three occasions in the last three years) it had supplied cars to dealers with greater discounts on condition that they registered the cars within a month. It said that in each case these greater discounts were granted on a limited volume of cars so as to clear old stock. Renault told us that in 1998, it pre-registered 2,227 cars out of a total of 180,319 new Renault cars registered in the UK (1.2 per cent). Rover, however, stated that its current trading difficulties meant that it had increased significantly the proportion of its new cars that were pre-registered to about 15 per cent for some model ranges in the first half of 1999.

5.55. We received no reliable evidence from dealers on the number of pre-registered cars. Ford told us that the estimates by analysts and journalists were far too high and that it was wrong to infer that registrations late in any month were likely to be pre-registrations. It said that there were three reasons why its registrations were higher at the end of the month. First, the dealers could delay payment of the VED. Secondly, they could delay paying Ford for the car. Thirdly, the DVLA's changes to the system of recording the registrations of new cars meant that since the beginning of 1999 Ford's registrations were recorded at the end of the month. Ford told us that most of its main dealers were expected to be part of the DVLA's new system by the end of 1999.

5.56. The one common characteristic of new cars is the fact that they are new. The Ipsos report, which was based on a series of focus groups carried out in May and June 1999 by Ipsos on behalf of the Commission, noted that, for those considering nearly-new cars, the emotional pull of owning a brand new car, putting the first miles on the clock and being the first person to drive the car had usually overcome the financial benefits of buying a nearly-new vehicle. CA told us that consumers attached weight to a car being new.

5.57. The Ipsos research found that reliability was an important reason why consumers bought a new car. Some of the respondents thought it would be foolish to buy someone else's reject, and some said that they had bought second-hand cars in the past and were glad that they were now in a position to purchase from new. Some of these reasons could apply to buying a pre-registered car and to other nearly-new cars. None of the luxury car purchasers in the Ipsos survey had seriously considered a second-hand car, except those that were buying a luxury new car for the first time.

5.58. There are no significant differences in the characteristics of new cars available to different types of customer except that some customers, for example those who buy their cars under the Motability scheme (see paragraph 5.105), will have their cars adjusted to meet their particular needs.

¹28 October 1999, page 15.

5.59. There are, however, differences in the requirements of fleet and private customers. Individual private customers buy new cars less frequently than individual fleet customers as private customers tend to keep their cars longer than fleet customers. The 1999 Lex Report¹ shows that on average private customers keep their cars for just over four years, compared with just under three years for fleet and business customers. Private motorists drive fewer miles than business and fleet motorists. The 1998 Lex Report² shows that on average private motorists drove about 9,000 miles in 1997 compared with over 18,000 by business and fleet motorists. Other differences between fleet and private customers are set out in paragraphs 7.53, 7.59, 7.60 and 7.69 to 7.76.

Price levels

5.60. There are overlaps of list prices of new cars in different segments. For example, the price range for the Vauxhall Astra (£12,655 to £15,325) in the lower medium segment overlaps with that of the Vauxhall Vectra (£14,700 to £21,880) in the upper medium segment, which in turn overlaps with that of the Vauxhall Omega (£19,425 to £28,825) in the executive segment.

5.61. Table 5.5 shows the number of new car model variants in various bands of on-the-road prices (see paragraph 7.2) as shown in the June 1999 edition of *What Car?*. There do not appear to be any sizeable gaps in the range of price levels of new cars. Model variants from different segments fall into the same price range. For example, in the price range of £14,000 to £14,499, there are model variants from the lower medium segment (variants of the Vauxhall Astra, Ford Focus and Peugeot 306) and from the upper medium segment (variants of the Vauxhall Vectra, Renault Laguna and Nissan Primera).

TABLE 5.5 The number of new car model variants by on-the-road price bands, June 1999

Price bands £	Number of new car model variants*
5,000–6,499	9
6,500–6,999	7
7,000–7,499	10
7,500–7,999	17
8,000–8,499	26
8,500–8,999	20
9,000–9,499	25
9,500–9,999	37
10,000–10,499	29
10,500–10,999	37
11,000–11,499	32
11,500–11,999	34
12,000–12,499	38
12,500–12,999	40
13,000–13,499	53
13,500–13,999	55
14,000–14,499	68
14,500–14,999	58
15,000–15,999	139
16,000–16,999	127
17,000–17,999	121
18,000–18,999	109
19,000–19,999	96
20,000–21,999	153
22,000–23,999	124
24,000–26,999	134
27,000–29,999	87
30,000–49,999	144
Over 50,000	62
Total	1,891

Source: Commission calculations on data provided by *What Car?*.

*Includes different body types, engine sizes, fuel types and trim levels.

¹The 1999 Lex Report on Motoring.

²The 1998 Lex Report on Motoring.

5.62. There are sizeable differences in the price of new and used cars of the same model variant.

5.63. Figure 5.1 shows the retail price of four model variants (Ford Mondeo 1.8GLX 5 door, Renault Clio 1.4RT 3 door, Vauxhall Astra 1.4LS 5 door and Vauxhall Vectra/Cavalier 1.8GLS 5 door) at different ages. The initial price is the advertised on-the-road price when new in mid-1999. The transaction price could, of course, be lower once discounts are taken into account (see Chapter 7). The retail price at the same date of the same car aged one year old and having travelled about 13,000 miles is much lower than the on-the-road price (ranging from a 25 per cent reduction for the Clio to 41 per cent for the Mondeo and Vectra). Based on our work on depreciation profiles of new cars, we estimate that the same cars aged six months would have a value between 19 and 32 per cent less than the price of the new car. This initial decline in value is much sharper than declines in later periods.

5.64. When new and used cars of different makes are compared, however, there will often be a choice at much the same price. BMW told us that, for example, a four-year-old BMW might be considered a substitute for a new Ford Scorpio. Using the April 1999 edition of *Glass's Guide*, we investigated the number of different types of used BMW cars and Mercedes-Benz cars that fell into the £15,000 to £15,999 price range. This price range contains 139 variations of new cars (see Table 5.5), many being part of the lower and upper medium segments (see paragraph 5.90). We found that just under 60 used BMW cars and 45 used Mercedes-Benz cars fell into this price range. The BMW cars ranged from 316i Compacts which were about 1 to 1½ years old and which had travelled between 8,000 and 13,000 miles to the BMW 740i which was over six years old and which had travelled 61,000 miles. The Mercedes-Benz cars ranged from 1.8 C Class used cars which were between two and four years old and which had travelled between 25,000 and 41,000 miles to 500 S Class used cars which were between seven and nine years old and which had travelled between 65,000 and 75,000 miles.

5.65. Table 5.6 shows the proportion of used cars bought in 1998 by price range and the number of new model variants which fall into each of these price ranges.

TABLE 5.6 The number of new car model variants available in the price ranges of used car sales, 1998

Price range (£)*	% of respondents	Number of new car variants	% of total new model variants
Up to 500	10		
501–1,000	11		
1,001–1,500	6		
1,501–2,000	6		
2,001–3,000	10		
3,001–5,000	16		
5,001–10,000	28	154	8.1
More than 10,000	8	132†–447‡	7.0†–23.6‡
Don't know	3		
Refused	1		

Source: Commission calculations based on *What Car?* and the BCA's *The Used Car Market*, 1999.

*Total purchase price for used cars and on-the-road price for new cars.

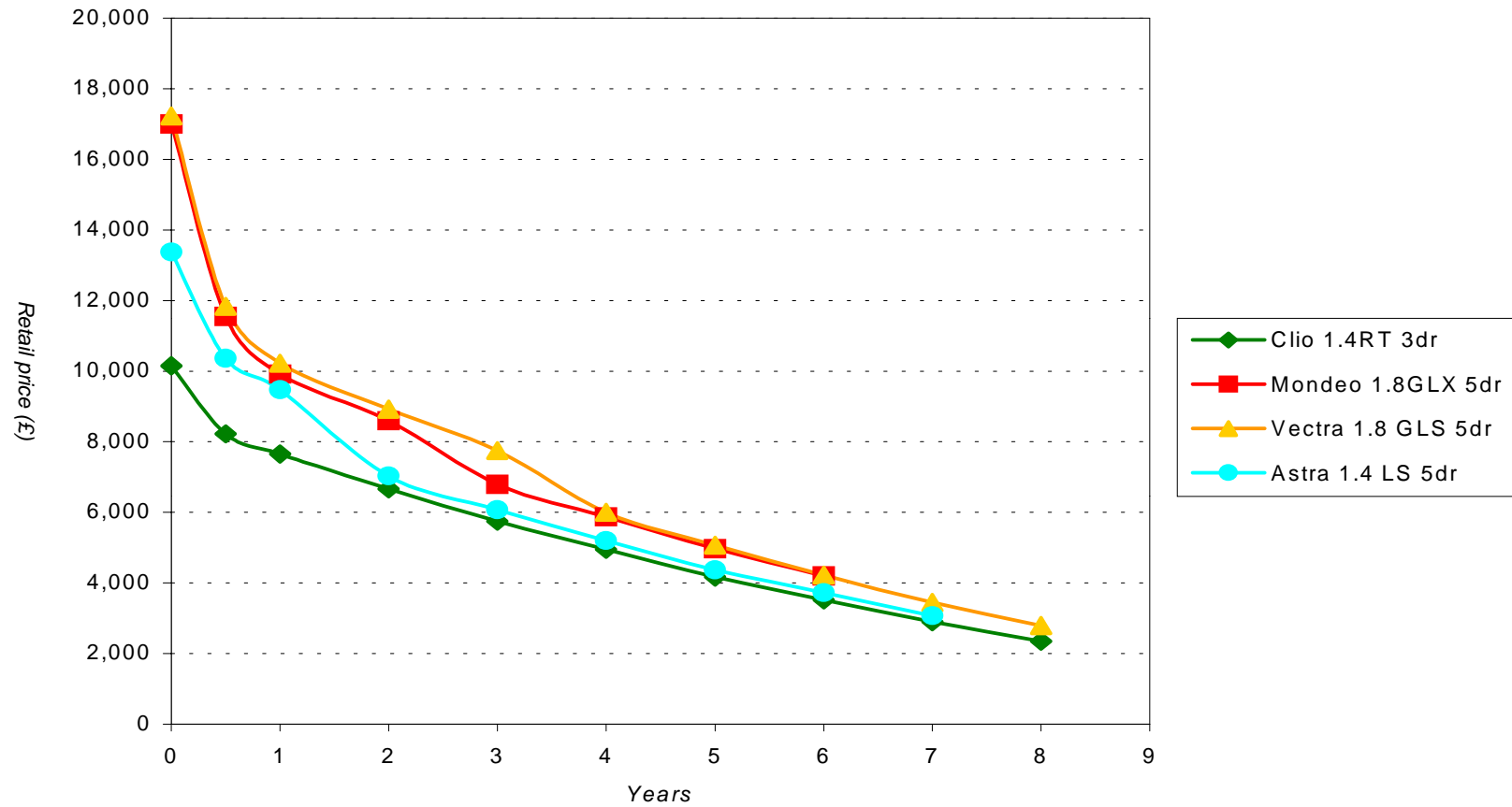
†Based on new car prices between £10,000 and £12,000.

‡Based on new car prices between £10,000 and £15,000.

5.66. 59 per cent of used car buyers bought a used car for £5,000 or less. For these consumers there would be only a small number of new cars available at comparable prices after taking account of discounts, and these would all be small cars. The 28 per cent of used car buyers who paid between £5,001 and £10,000 for their used car would have been able to choose from 154 new model variants (8 per cent of all variants) based on their on-the-road prices. This number would be higher after taking account of discounts. Again, however, the new car model variants in this range would generally be small cars, whereas the used cars bought in this range would be of all sizes.

FIGURE 5.1

The retail price of four model variants at various ages



Source: Commission calculations based on *Glass's Guide* (April 1999) and *What Car?* (September 1999).

5.67. In order to understand the relevance of used car prices for new car prices we asked the suppliers what factors they took into account when setting list prices. Most suppliers told us that they took into account several factors but for all of them the most important factor appeared to be the list prices of competing new cars. None of the suppliers mentioned the price of used cars. We understood from this that the suppliers took no direct account of used car prices when setting new car prices. Ford told us that such an inference was incorrect. It restated its view that a whole range of factors influenced new car prices. It told us that when it set its new car prices by reference to the price of a basket of new cars manufactured by its competitors, it was inevitably taking into account these various factors, including the prices of used cars, as they would already have affected the pricing of its competitors' cars.

5.68. The Ipsos report found that new car buyers saw new cars as a more attractive option than second-hand cars. They referred to special deals on offer with new cars such as one year's free insurance, one year's free breakdown cover and various extras or special editions to entice purchasers (for example, sunroof, metallic paint, alloy wheels). They also referred to the cheaper credit available to buyers of new cars (such as 0 per cent finance), the absence of MOT costs for three years and minimal repair costs while the car was under warranty. Some of these financial attractions reported by consumers in the Ipsos survey apply also to nearly-new cars.

5.69. Evidence reported in Tables 7.2 to 7.4 and Figure 7.6 shows that there are significant differences in the transaction prices of new cars bought by private and fleet customers.

Changes in new and used car prices

5.70. This section of the chapter analyses the relationship between changes in new and used car prices. This is of interest because if the prices of new and used cars move in the same manner, it may suggest that they are in the same economic market.

Price indices

5.71. The ONS produces price indices for new and used cars. These indices are published in the *Business Monitor*¹ and are part of the UK Harmonised Index of Consumer Prices (HICP), which was developed for comparing the inflation rates of EC member states in the context of Economic & Monetary Union.

(a) New car price index

5.72. The ONS has collected new car prices since January 1996. It uses on-the-road prices which are based on list prices and not transaction prices (see paragraph 7.2). Therefore, discounts are not taken into account in the ONS figures nor are non-price benefits such as free insurance.

5.73. The ONS collects prices for about 50 model variants each month. These model variants change over time. The prices are adjusted to remove that part of the price difference which is due to changes in quality or specification (see paragraph 7.15).

(b) Used car price index

5.74. The ONS produces two price indicators for used cars: one for two-year-old and one for three-year-old cars. The two price indicators are combined (giving equal weight to each) to give a single price

¹MM23—Consumer Price Indices.

index for used cars. The ONS uses a sample of 40 model variants of two- and three-year-old cars using retail prices that are taken from a monthly trade guide. These retail prices are based on prices which are collected by the trade guide on a daily basis from national and provincial press advertising by franchised and non-franchised dealers from all over the UK. The used price index is also adjusted for quality changes.¹

Trends in new and used car price indices between January 1996 and November 1999

5.75. Figure 5.2 shows the differences in the trends in new and used car prices as produced by the ONS. New car prices rose gradually from January 1996 to April 1998, they were broadly constant between April 1998 and April 1999, they fell slightly between April 1999 and October 1999 and they increased slightly in November 1999, although the ONS said that there were reported to be expectations of reductions in new car prices (see paragraph 7.16). Used car prices, on the other hand, have shown more of a fluctuating pattern. They rose from January 1996 to September 1996, fell to December 1996, rose to March 1997, were broadly constant to September 1997, fell to December 1997, rose to March 1998, fell to December 1998, rose to January 1999, were broadly constant to April 1999 and fell to November 1999.

5.76. There appears to be some seasonality in the used car price data. In order to correct for the seasonality we converted the monthly indices for new and used cars into three-, six- and twelve-month rolling averages. Figure 5.3 shows the trends for the twelve-month rolling averages.

5.77. By smoothing out the trends, Figure 5.3 shows that new and used car prices both rose between late 1996 and mid-1997. After this period, new car prices continued to rise until late 1998, they were broadly constant to early 1999 and they fell to late 1999. On the other hand, used car prices were broadly constant between mid-1997 and mid-1998 and then fell to late 1999. The two indices began to diverge in early 1998.

5.78. The difference between new and used car prices from early 1998 onward may be less than appears in Figure 5.3 if discounts and financial benefits given to customers buying new cars have risen since early 1998. Evidence on these benefits does not, however, suggest that they will have significantly altered the trend in the prices of new cars (see Tables 7.11 and 7.12).

5.79. The ONS does not produce a price index for cars aged less than two years old. The Alliance and Leicester Car Price Index (see paragraphs 7.18 to 7.21) shows the changes in the price of new cars, nearly-new cars and used cars. Between July 1998 and July 1999, this index shows that transaction prices for new cars fell by 1.9 per cent, nearly-new prices fell by 13.4 per cent and used car prices fell by 6.6 per cent.

5.80. Prices changes of new cars bought by different types of customer and of new cars in different segments are discussed in Chapter 7.

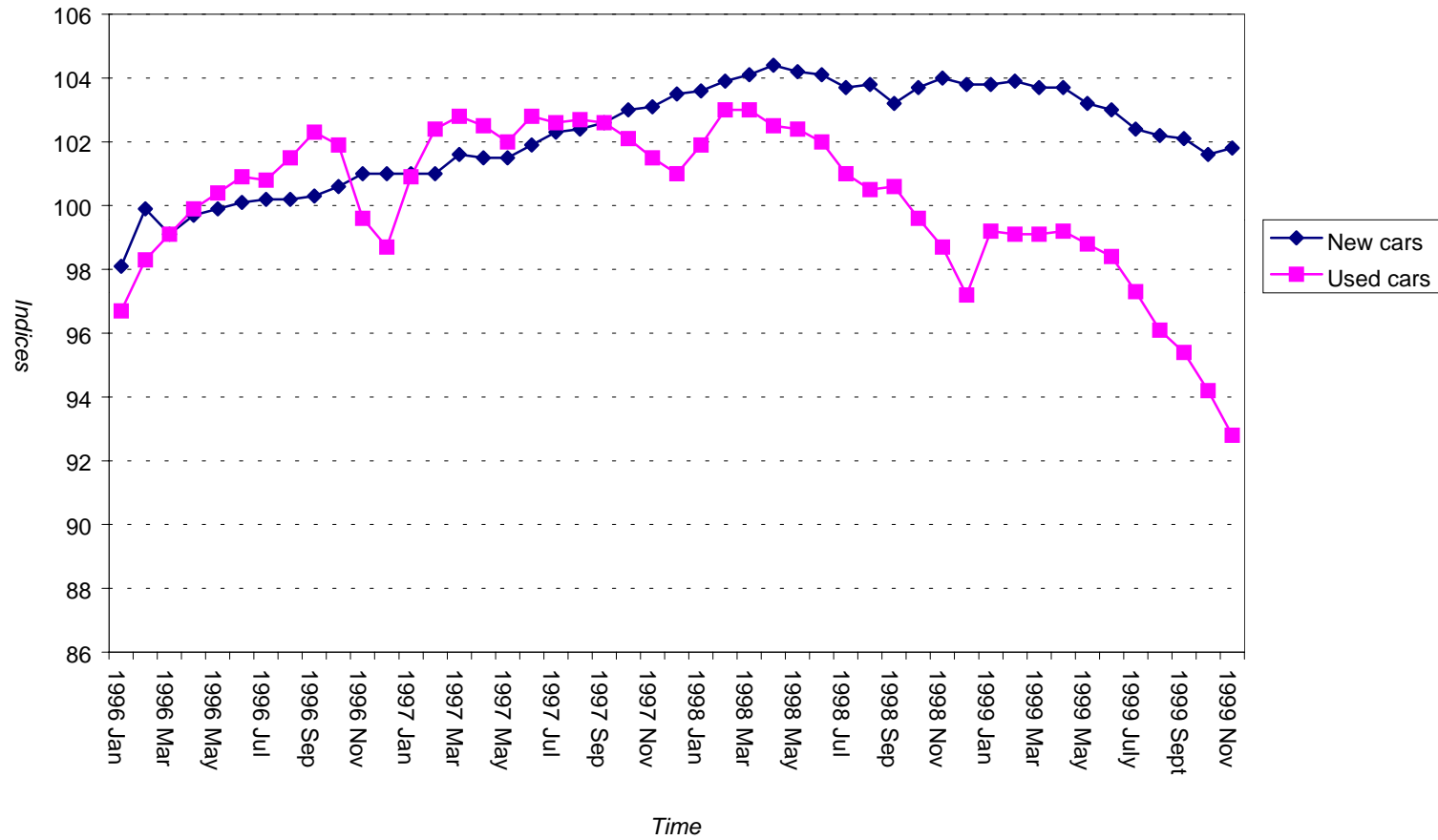
Changes in demand

5.81. Over the period for which we have data on the relative changes in new and used car prices there has been little change in the number of new car registrations. New car registrations in 1997 (2.17 million) were 7 per cent higher than in 1996 (2.03 million) and they were 4 per cent higher in 1998 (2.25 million) compared with 1997. In 1999 (2.2 million) they were just over 2 per cent lower than in 1998. Figure 5.4 shows changes in new car registrations over a slightly longer period.

¹See section 7.4.8 of *The Retail Prices Index: A Technical Manual* for details.

FIGURE 5.2

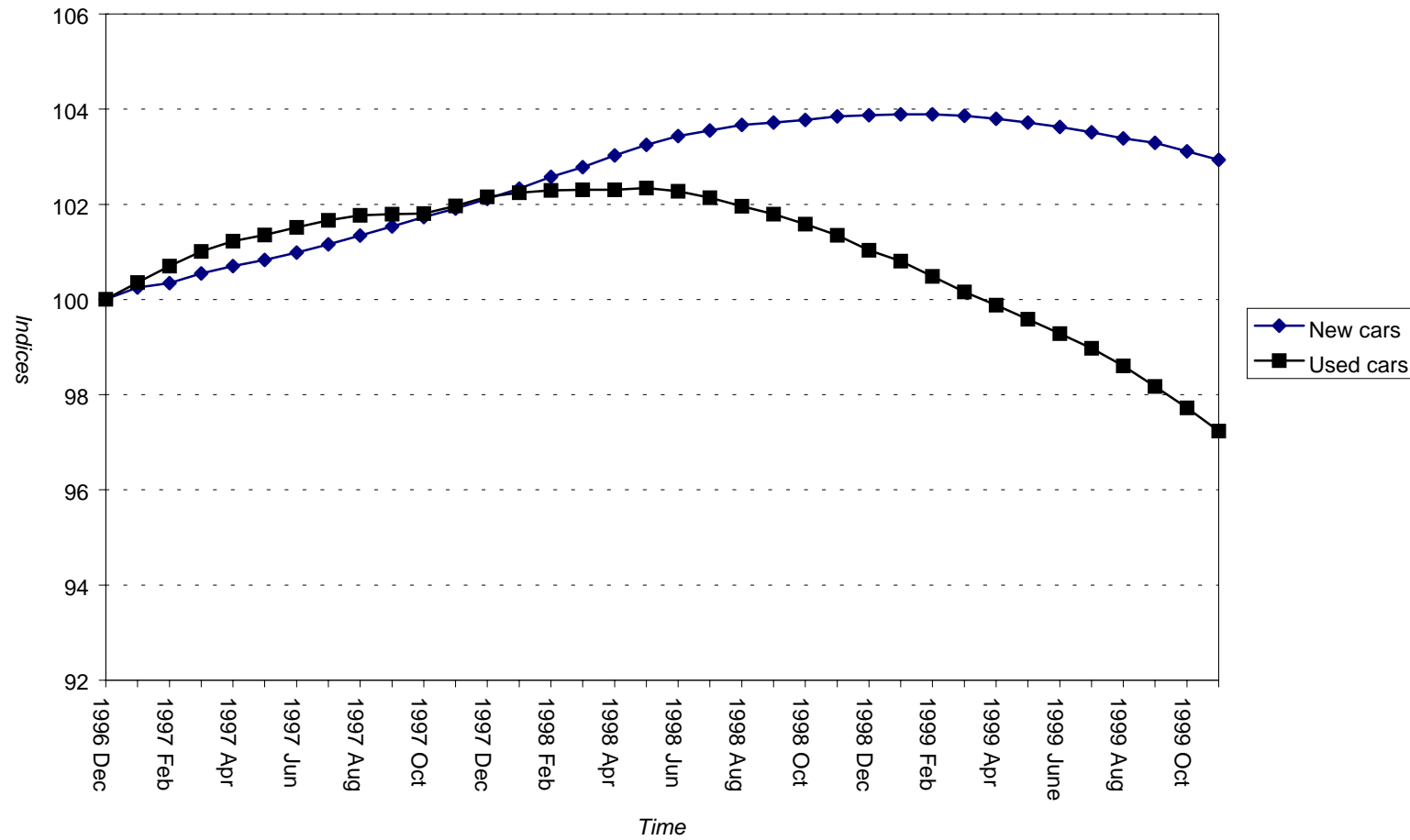
Monthly indices of new and used car prices, January 1996 to November 1999



Source: ONS.

FIGURE 5.3

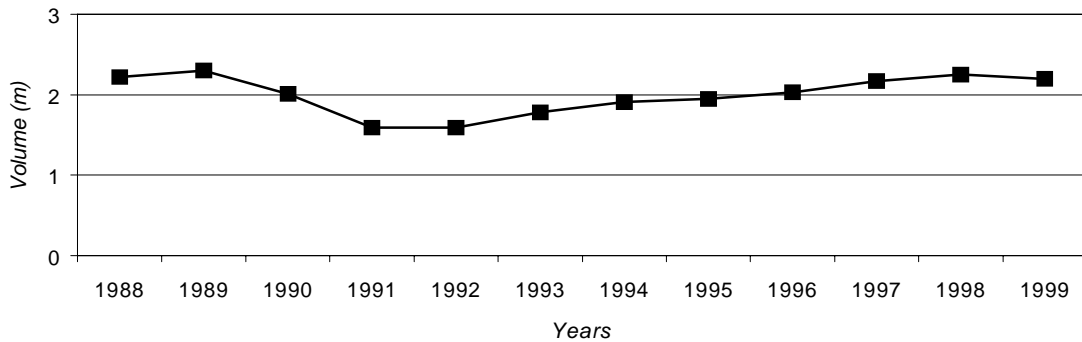
**Rolling twelve-month average of the monthly indices of new and used car prices,
December 1996 to November 1999**



Source: Commission calculations on ONS data.

FIGURE 5.4

Registrations of new cars, 1988 to 1999



Source: SMMT.

Figure 5.4 shows that new car registrations rose in each year between 1992 and 1998. They declined slightly in 1999. However, there is no appreciable change in the trend since 1992. Other things being equal, if new and used cars were in the same market we would expect some fall in new car registrations to reflect the different trends in new and used car prices since 1998. This ought to happen for two related reasons. First, the cost of changing from a used car to a new car would have increased (ie the difference between the price of a new car and the value of the existing car). Secondly, the price of new cars would have risen relative to the price of used cars, causing some consumers who would otherwise have bought new cars to switch to buying used cars.

5.82. There will of course be other factors that influence the demand for new cars, such as disposable income, and these factors may have compensated for the relative change in new and used car prices. This point was put to us by the suppliers. For example, Ford told us that there were a large number of factors other than used car prices which might affect new car registrations. It said that general economic conditions, for example, might have meant that new cars became more affordable for a greater proportion of the population which would increase new car registrations even if a number of potential new car buyers chose, as a result of cheaper used cars, to opt for a used car. It was widely reported in the press that the fall in registrations in 1999 was due, in part, to consumers delaying buying new cars as they were expecting prices of new cars to fall in the near future.

5.83. There is also a further reason why the data shown by Figure 5.4 might not be useful in trying to relate changes in relative prices to changes in demand. Figure 5.4 shows new car registrations, not new car sales. A fall in the sales of new cars could be masked by an increase in the number of pre-registrations (see paragraph 5.38).

5.84. Our conclusion on the relevant product market and our reasons for our decision are set in paragraphs 2.64 to 2.81. We now turn to look at the supply of new cars in the UK.

New cars in the UK

The level and growth of registrations

5.85. The DETR's V55 form records new car registrations, not sales to final customers. The data therefore include cars pre-registered by suppliers or dealers, as well as cars registered on being sold to customers.

5.86. Table 5.7 shows the number of new car registrations for each year between 1989 and 1999.

TABLE 5.7 **New car registrations, 1989 to 1999**

	<i>m</i>	<i>Annual change %</i>
1989	2.3	
1990	2.01	-12.6
1991	1.59	-20.7
1992	1.59	0.1
1993	1.78	11.6
1994	1.91	7.5
1995	1.95	1.8
1996	2.03	4.1
1997	2.17	7.2
1998	2.25	3.5
1999	2.20	-2.2

Source: Commission calculations on data provided by the SMMT.

5.87. In 1989 2.3 million new cars were registered in the UK. In 1990 registrations declined by 12.6 per cent to about 2 million. In 1991 they fell by 20.7 per cent to 1.6 million, continuing at the same level in 1992. New car registrations then rose in each year between 1992 and 1998 but fell by about 2 per cent in 1999. Between 1992 and 1998 they increased by 42 per cent to reach 2.25 million, an annual average increase of 6 per cent, which nevertheless left registrations below the peak in 1989.

5.88. New car registrations are often classified by product segment and by type of customer. We look at each of these in turn.

New car segments

5.89. There is no accepted definition of new car segments. The segmentation we have principally used is that of the motor industry trade body, the SMMT. The SMMT breaks down new car registrations into nine segments. These and their shares of new car registrations are shown in Table 5.8.

TABLE 5.8 **New car registrations by segment, 1994 to 1999**

	<i>per cent</i>					
	1994	1995	1996	1997	1998	1999
Mini	1.0	0.9	0.8	0.7	1.1	1.8
Supermini	26.0	27.0	27.1	26.5	25.2	27.0
Lower medium	33.6	32.8	33.1	32.4	33.4	32.0
Upper medium	26.5	24.9	24.6	25.2	24.5	23.4
Executive	6.3	6.5	5.9	5.8	5.5	5.3
Luxury saloons	0.6	0.8	0.8	0.7	0.8	0.6
Multi-purpose vehicles	0.8	1.0	1.7	2.0	2.1	2.4
Dual purpose	3.7	4.1	3.9	3.8	4.4	4.5
Specialist sports	<u>1.5</u>	<u>1.9</u>	<u>2.2</u>	<u>2.9</u>	<u>3.0</u>	<u>3.1</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Total (m)	1.91	1.95	2.03	2.17	2.25	2.20

Source: Commission calculations on data provided by the SMMT.

Note: Totals may not sum because of rounding.

5.90. Table 5.8 shows that in 1999 the lower medium segment accounted for the largest proportion of the registrations of all new cars (32 per cent). Examples of model ranges in the lower medium segment are the Ford Escort and Focus, Peugeot 306, Renault Megane, Rover 200 and 400, Vauxhall Astra and Volkswagen Golf. In 1999, two other segments, the supermini and the upper medium segment, each accounted for about one-quarter of the registrations of new cars. Model ranges that are categorized as superminis by the SMMT include the Ford Fiesta and Ka, Nissan Micra, Renault Clio, Vauxhall Corsa

and Volkswagen Polo. These are slightly larger than the model ranges in the mini segment, for example Fiat Cinquecento and Rover Mini. Examples of model ranges in the upper medium segment are BMW 3 Series, Ford Mondeo, Peugeot 406, Renault Laguna, Vauxhall Vectra and Volkswagen Passat. In total the lower medium, supermini and upper medium segments accounted for 82 per cent of new car registrations in 1999, compared with 86 per cent in 1994.

Types of customer

5.91. In the V55 (see paragraph 5.85) dealers have to record the type of registration (ie type of customer). There are a number of possible categories but only three are used. These are private, business and fleet. Many of the suppliers combine the first two and refer to them as retail customers.

5.92. Taking the categories of customer in reverse order, fleet is defined as a vehicle that is registered to a fleet of 25 or more cars, or a fleet of 25 or more commercial vehicles. Business registrations are defined as those primarily for use by a business house (registered company), government department, local authority, public corporation, bank, insurance company, contractor, tradesman or by any other industrial or commercial concern—but excluding fleet registrations. Private registrations are those for the personal use of a private individual.

5.93. The data from the V55 are passed to the SMMT. The SMMT told us that it did not investigate whether dealers used the definitions as set out by the DETR. As a result the SMMT did not know how the dealers decided to record their registrations. 80 per cent of dealers in one of our dealer surveys (see paragraph 6.33) told us that they had read the DETR's booklet on how to register a new car¹ and of these 79 per cent said that they followed its guidance when completing the V55. In response to another question, 78 per cent of dealers told us that they defined fleet customers on the total size of their fleet. However, of these respondents, 35 per cent used a figure of less than 25 cars and 13 per cent used a figure of more than 50 cars.

5.94. Table 5.9 shows the breakdown of new car registrations by type of customer as reported on the V55.

TABLE 5.9 New car registrations by type of customer, 1994 to 1999

	<i>per cent</i>					
	1994	1995	1996	1997	1998	1999
Business	6.2	6.1	6.7	7.0	7.3	8.5
Fleet	44.6	46.9	47.2	46.9	47.0	46.1
Private	<u>49.2</u>	<u>46.9</u>	<u>46.1</u>	<u>46.1</u>	<u>45.8</u>	<u>46.4</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Total (m)	1.91	1.95	2.03	2.17	2.25	2.20

Source: Commission calculations on data provided by the SMMT.

Note: Totals may not sum because of rounding.

5.95. Table 5.9 shows that in 1999 fleet and private registrations accounted for about the same proportion of all new car registrations (46 per cent). Non-private registrations (business and fleet) accounted for 55 per cent of all new cars registered.

5.96. Autopolis, a management consultancy firm specializing in the car industry, told us that it did not accept the accuracy of the allocation of the registration data by types of customer. It said that the allocation rested on the dealer completing the form correctly (ticking the appropriate box) which was unreliable as the dealer's choices might be governed by the incentives the suppliers were offering at that particular time. It provided us with its own estimates of the breakdown of UK registrations in 1997 by type of customer. Autopolis estimated that in 1997 private customers accounted for only 20 per cent of UK registrations, 26 percentage points lower than the SMMT figure (taken from the registration data). Autopolis's estimates were 63 per cent for fleet customers and 17 per cent for business customers. These compare with the SMMT figures of 47 and 7 per cent. Whichever of these figures is correct, fleet cus-

¹The First Licensing and Registration of Motor Vehicles.

tomers account for a large share of UK new car registrations, and we now look at the different types and sizes of fleet customers.

Fleet customers

5.97. There is a wide variety of fleet customers. They include companies that buy thousands of new cars each year and companies that buy only a small number. Some fleet customers buy large numbers of similar cars for their employees' use on the company's business; others allow their employees to choose their own model variants, normally subject to some restrictions. Employees who have a choice of car are known as user-choosers.

5.98. Data published by Lex Vehicle Leasing Limited¹ give an indication of the variation in the size of fleet customers. These data are for the stock of cars (not annual purchases) and for business and fleet customers (see Table 5.10).

TABLE 5.10 The breakdown of fleet and business customers by the stock of new cars, 1998

Company size (number of cars)	Percentage of number of:	
	Customers	Cars
1	83	20
2–24	14	21
25–99	2	25
100–249	0.3	10
250 and over	<u>0.2</u>	<u>24</u>
Total	<u>100</u>	<u>100</u>
Volume ('000)	720	3,000

Source: *The 1999 Lex Vehicle Leasing Report on Company Motoring.*

Note: Totals may not sum because of rounding.

5.99. It is estimated that there are 720,000 separate business and fleet customers and that they collectively have 3 million cars. 83 per cent of these customers have only one car each and they account for 20 per cent of the stock of company cars. At the other extreme, 0.2 per cent of these customers have 250 cars or more each and they account for 24 per cent of the stock of company cars.

5.100. We investigated the breakdown of the number of cars held by fleet customers, as defined by form V55, by excluding those customers with fewer than 25 cars, that is the business category of customers. The result shows that 83 per cent of fleet customers have between 25 and 99 cars and they account for 42 per cent of the stock of fleet cars. The largest customers, those with 250 cars or more, account for 6 per cent of fleet customers but 41 per cent of the stock of fleet cars.

5.101. Some suppliers provided us with a breakdown of their fleet registrations by different types of fleet customer. For example, Ford provided data for 1998 that showed that 22 per cent of its fleet registrations went to major fleets (customers with more than 100 vehicles) other than daily rental companies, 18 per cent went to national daily rental companies, 14 per cent went to the Motability scheme, and regional daily rental companies and small fleets each accounted for 8 per cent. Peugeot provided us with data for 1998 that showed that leasing companies not owned by Peugeot, the Motability scheme, national daily rental companies, major fleets and other fleets each accounted for between 12 and 15 per cent of its fleet registrations.

¹*The 1999 Lex Vehicle Leasing Report on Company Motoring.*

5.102. Suppliers have a category of fleet customers known as direct sales. The suppliers negotiate the terms of these sales but in most cases the cars are delivered to the customers through their dealers with the dealers receiving a handling charge. A small number of new cars are, however, delivered direct by the suppliers to the customer. For example, 2.5 per cent of Ford's fleet registrations went direct from Ford to the customer. These customers are former nationalized industries, emergency services and the armed forces.

5.103. Table 5.11 shows the breakdown of the purchases by fleet customers in 1997 by type of fleet customer as estimated by Autopolis.

TABLE 5.11 The breakdown of fleet registrations by type of fleet customer, 1997

	%
Daily rental companies	16
Direct sales	16
Over 100 fleet cars	40
25 to 100 fleet cars	15
Demonstrators	5
Motability	<u>8</u>
Total	<u>100</u>
Volume (m)	1.4

Source: Commission calculations on data provided by Autopolis.

5.104. According to this information the largest category of fleet customers (40 per cent) is those with a stock of over 100 cars but excluding daily rental companies and direct sales (see paragraph 5.102). These are usually referred to as major fleet customers. The small fleets (those with a stock of between 25 and 100 cars) accounted for 15 per cent of fleet purchases in 1997. The daily rental companies (for example, Hertz and Avis) and direct sales (to customers such as government departments) each accounted for 16 per cent of fleet sales in the same year. The selling arrangements between fleet customers, dealers and suppliers are discussed in paragraphs 7.53, 7.59 and 7.60.

5.105. Autopolis estimated that Motability, which is a government-run charitable scheme to provide cars at low prices to people receiving the higher rate of mobility allowance, accounted for 8 per cent of fleet registrations in 1997. The Motability scheme is the largest single fleet customer in Europe and the second largest in the world. Motability told us that the scheme had bought nearly 160,000 new cars in 1998. Using the SMMT data for 1998, the Motability scheme accounted for 7 per cent of all new cars registered and 15 per cent of all fleet registrations, seven percentage points higher than Autopolis's estimate for 1997.

Shares of the suppliers

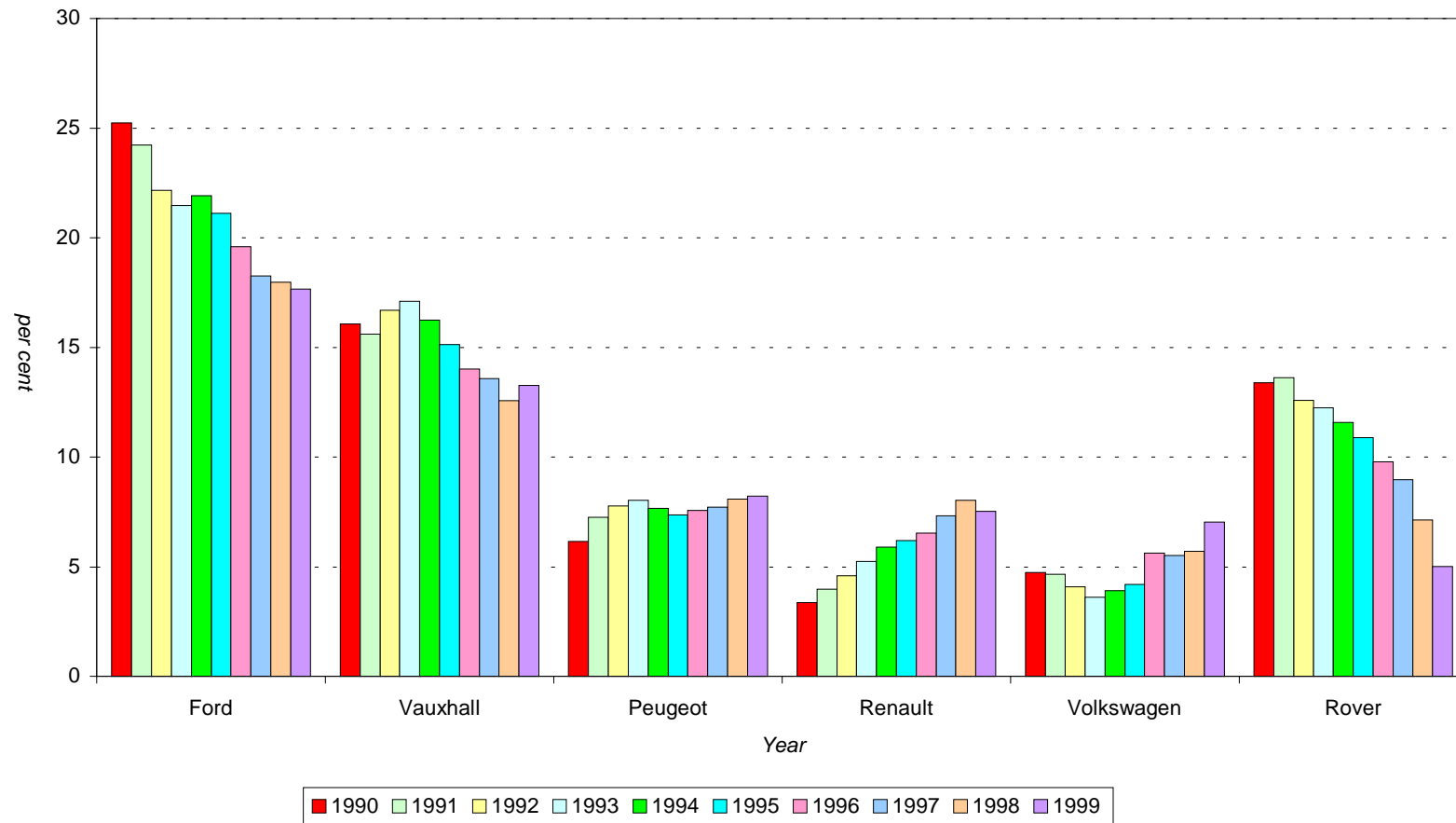
5.106. Figure 5.5 shows the shares of total new car registrations in the UK for each of the years 1990 to 1999 held by each of the top six suppliers (see Appendix 5.4 for a fuller version of the data). Table 4.3 shows the number of new car registrations in Western Europe in 1997 and 1998, showing the shares of the major suppliers.

5.107. In 1990 the three largest suppliers in the UK were Ford, Vauxhall and Rover which together accounted for 55 per cent of new car registrations. No other supplier accounted for more than 7 per cent of registrations. Between 1990 and 1998 the share of new car registrations held by Ford, Vauxhall and Rover fell. Ford's share declined gradually from 1990 (25.3 per cent) to 1998 (18 per cent) although it experienced a slight increase in 1994. Between 1990 and 1994 Vauxhall's share was broadly constant at around 16 to 17 per cent. Between 1994 and 1998 its share fell by 3.7 percentage points (16.3 to 12.6 per cent). Rover's share fell slightly between 1990 and 1993 (from 13.4 to 12.2 per cent). Between 1993 and 1998 its share fell by a larger amount (5.1 percentage points). In 1999, Ford's share fell by 0.3 percentage points to 17.7 per cent, Vauxhall's increased by 0.7 percentage points to 13.3 per cent and Rover's fell by 2.1 percentage points to 5 per cent.

5.108. The shares of several overseas suppliers increased considerably between 1990 and 1998. The biggest change was in Renault's share, which increased from 3.4 per cent of new car registrations in 1990 to 8 per cent in 1998. Peugeot, Volkswagen and Fiat experienced smaller increases in their shares. In 1999, Renault's and Fiat's shares fell by about 0.5 percentage points each to 7.5 and 3.5 per cent respectively, Peugeot's share remained at about 8 per cent and Volkswagen's share rose by 1.3 percentage points to 7 per cent.

FIGURE 5.5

Shares of UK new car registrations for each of the top six suppliers, 1990 to 1999



Source: Commission calculations based on data provided by the SMMT.

5.109. In 1998 six supplier groups (Ford, GM, Renault, Peugeot, BMW and Volkswagen) accounted for about 75 per cent of new car registrations in the UK. The share of these groups was broadly constant between 1990 and 1993 (at about 76 per cent), rose in 1994 (80 per cent) and fell to 1997 (75 per cent). (These figures take account of acquisitions by the Ford Motor Company, which acquired Volvo Cars AB in March 1999 and acquired management control of Mazda Motor Corporation in 1994, and by BMW AG which acquired Rover in 1994, but not of Renault's global partnership agreement with Nissan Group in 1999—see Appendix 5.4.) In 1999, their share remained at about 75 per cent. Including Nissan's share with that of Renault in 1998 takes the share of these six suppliers (about 80 per cent) back to the level they held in 1994. In 1999 their share fell slightly to 79 per cent. As already set out, however, there were sizeable acquisitions by some of these supplier groups.

5.110. There are many other suppliers of new cars in the UK. The SMMT stated that in total there were over 40. However, taking account of the common ownership of some car suppliers (see paragraph 5.109) reduces the SMMT's figure by about half. If the shares of Fiat, Toyota, DaimlerChrysler and Honda are added to those of the six leading supplier groups, then in 1998 these ten supplier groups accounted for about 89 per cent of new cars registered in the UK, or 94 per cent if Nissan's share is included with that of Renault. The equivalent shares in 1999 are 89 and 93 per cent.

5.111. A number of suppliers have started supplying new cars in the UK since 1990. These are Chrysler (now part of the DaimlerChrysler group), Daewoo, Kia, Perodua, Ssangyong and Venturi. The share of these suppliers in total is very small, less than 3 per cent in 1999, with Daewoo accounting for over half of this. A number of suppliers have stopped supplying new cars to the UK in the same period. These are Dacia, FSO, Lada, Sao and Zastava. None of these suppliers achieved large sales in the UK. The largest of them was Lada, which at its height in 1988 accounted for 1.4 per cent of new car registrations in the UK.

5.112. Appendix 5.4 also shows the Herfindahl-Hirschman Index (HHI), which is a widely-used measure of market concentration. An HHI of 10,000 indicates that there is only one supplier in the market, and the lower the number the lower the concentration. The Commission has used the HHI in past inquiries as a useful way of providing a single index of the degree of concentration in a market but it has not regarded it as the only indicator of the extent of competitive pressure. In merger inquiries, the US Department of Justice distinguishes different levels of concentration by the size of the HHI. Markets with an HHI of less than 1,000 are regarded as having a low level of concentration. A market with an HHI of between 1,000 and 1,800 is viewed as having a moderate degree of concentration and over 1,800 signifies a high level of concentration. Using these guidelines, the HHI for new car registrations falls into the moderate level of concentration. Taking account of common ownership, the HHI in 1998 (1,137) was slightly higher than that in 1997 (1,111) but the level has fallen in all but one of the previous years (1994) since 1990 (1,348). The HHI in 1998 was 1,209 when Nissan's share is included with that of Renault.

Trends in registrations by supplier

5.113. We looked at the trends in the volume of new car registrations between 1990 and 1999 for those leading suppliers that had experienced sizeable falls in their shares—Ford, Vauxhall and Rover.

5.114. Ford's new car registrations fell from over half a million in 1990 to some 350,000 in 1992. They then fluctuated during the remainder of the 1990s ending the decade with an annual total of about 390,000. In 1990 Vauxhall had over 320,000 new cars registered. Its registrations in the rest of the decade fluctuated between about 250,000 (1991) and 310,000 (1994). In 1999 they were about 290,000. In 1990 Rover's new registrations amounted to over 270,000. They fell to about 200,000 in 1992, rose to over 220,000 in 1994 and then fell to 110,000 in 1999.

Voluntary export restraints

5.115. The share of new car registrations accounted for by Japanese suppliers increased from 11.7 per cent in 1990 to about 15 per cent in 1999. Until the end of 1999 Japanese imports of new cars from outside the EC were subject to VERs. These restraints did not apply to cars produced by Japanese manufacturers in EC countries. The VER limit for the UK was 7 per cent of total registrations. Japanese

imports to the UK were about 6 per cent of registrations in 1994 to 1996, rising to 7 per cent in 1997 and to 7.8 per cent in 1998, slightly over the limit.

5.116. Figure 5.6 and Appendix 5.5 show that the total Japanese share of new car sales in the UK (about 15 per cent) is considerably smaller than in eight other Western European countries (Austria, the Netherlands, Switzerland, Denmark, Greece, Finland, Ireland and Norway), the difference being about ten percentage points or more for five countries (Denmark, Greece, Finland, Ireland and Norway). Japanese imports of new cars, taken separately, are considerably smaller in the UK (about 8 per cent) than in nine other Western European countries (Sweden, Austria, the Netherlands, Switzerland, Denmark, Greece, Finland, Ireland and Norway), the difference being about eight percentage points or more for five countries (Switzerland, Greece, Finland, Ireland and Norway). Japanese imports of new cars to the UK account for about 50 per cent of new cars sold in the UK by Japanese-owned suppliers. This is one of the lowest proportions in Western Europe.

5.117. Four of the six countries with a lower Japanese share than the UK had some form of VER: France, Italy and Spain (5.3 per cent) and Portugal (8.4 per cent). There was also an EC-wide VER limit which was 8 per cent of total sales. It is noticeable that the Japanese suppliers have a lower share of sales in the larger EC countries. However, their share of sales in the North American free trade area, which had over 9 million sales of new cars in 1998, was over 30 per cent.

Reasons for the changes in suppliers' shares

5.118. In order to understand where suppliers have lost and gained share of the registrations of new cars we have broken down such registrations by type of customer and by product segment.

Shares by types of customer

5.119. Appendix 5.6 shows the volume of new car registrations to fleet customers in the UK for each of the years 1994 to 1998 and the shares held by the individual suppliers and their groups with a share of about 1 per cent or more of these registrations.

5.120. The trends in the shares of the suppliers' registrations to fleet customers are very similar to the trends in their shares of registrations to all customers (see Appendix 5.4). Between 1994 and 1998, the shares held by Ford, Vauxhall and Rover fell whilst those held by Renault, Peugeot, Volkswagen and Fiat rose. Over the same period, the shares of registrations to business customers held by Ford, Vauxhall and Rover declined but in this case the major beneficiary was BMW which saw its share increase from 5 per cent in 1994 to 10 per cent in 1998 (see Appendix 5.7).

5.121. Appendix 5.8 shows the volume of new car registrations to private customers in the UK for each of the years 1994 to 1998 and the shares held by the individual suppliers and their groups with a share of 1 per cent or more of these registrations.

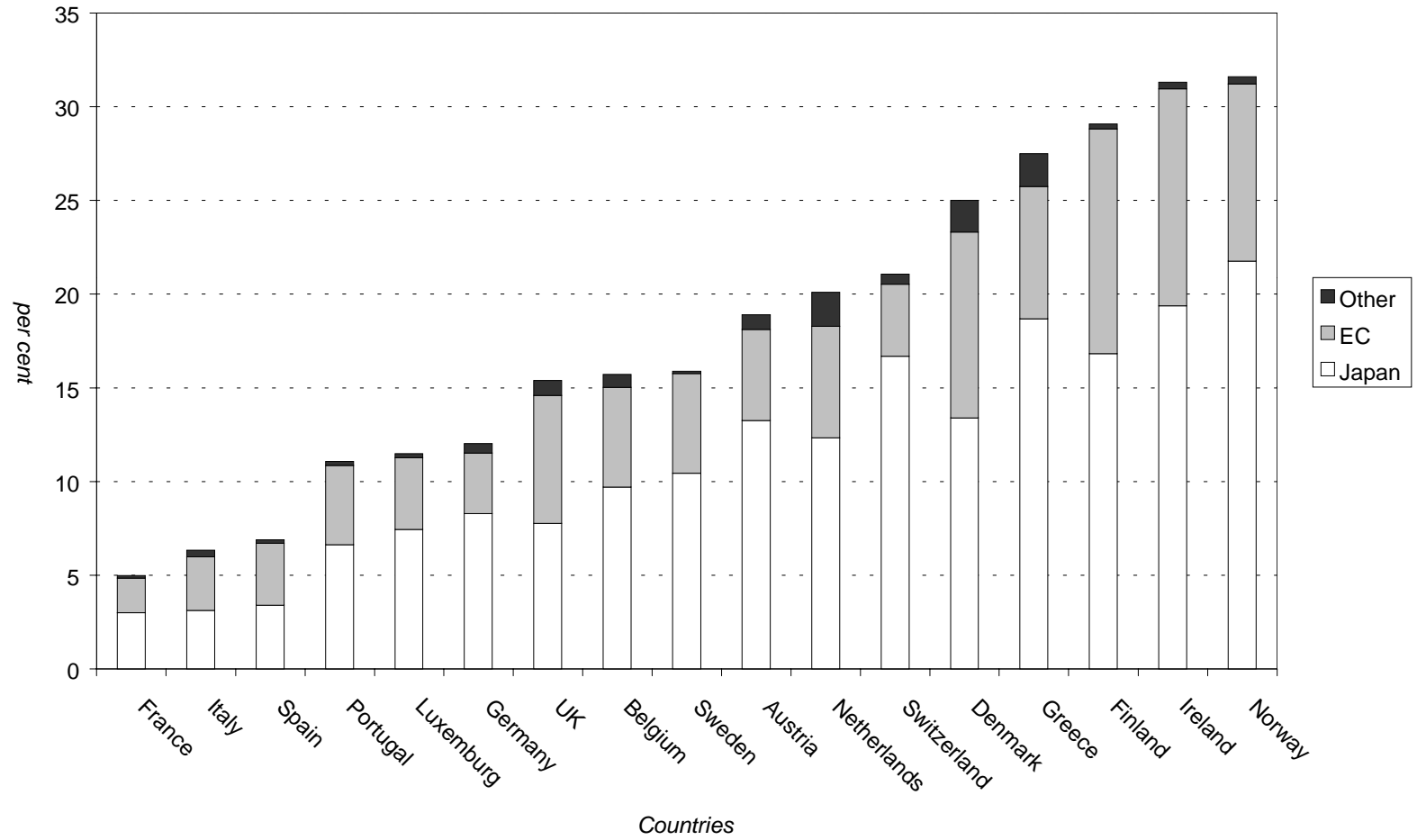
5.122. Compared with changes in the shares of the suppliers' registrations to fleet customers the changes in the shares of their registrations to private customers have been relatively small. Between 1994 and 1998 Ford's share fell by just over one percentage point, Vauxhall's fell by just under two percentage points and Rover's by about 1.5 percentage points. Renault and Volkswagen experienced small increases in their shares during this period.

5.123. This analysis of the registration of new cars by type of customer has shown that the major changes in suppliers' shares have occurred in the registrations to fleet customers. We were told that there were many reasons for the changing shares to fleet customers. First, suppliers such as VW, Renault and Peugeot now offered a broader range of new cars. Secondly, some fleet customers no longer adopted a buy-British policy. Thirdly, some suppliers which had previously had a low share of fleet registrations had increased their discounts to fleet customers. Fourthly, user-choosers—an increasing number—wanted a wider variety of new cars.

5.124. In order to understand further the major changes in fleet shares, we have explored the life-cycle effect for the model ranges of Ford, Vauxhall, Renault and Rover.

FIGURE 5.6

The share of Japanese new cars in European countries by their area of origin, 1998



Source: Commission calculations based on data provided by ACEA.

Life-cycle effect

5.125. Appendices 5.9 to 5.12 show fleet registrations by model range for Ford, Vauxhall, Renault and Rover for each of the years 1994 to 1998 and their volume changes for the whole of this period.

5.126. The changes in the fleet registrations of these four suppliers are related to the life cycles of particular model ranges. Registrations have fallen for those model ranges at or near the end of their lives and have increased for those model ranges that have recently been introduced. In the case of Ford, the Escort accounted for the largest fall in Ford's fleet registrations between 1994 and 1998 (-21,800), most of this fall occurring in 1996. Towards the end of this period Ford was phasing out the Escort, to be replaced with the Focus. For Vauxhall, fleet registrations of the Astra fell by 13,000, most of the fall occurring in 1996. Towards the end of this period Vauxhall was phasing out the Astra, to replace it with the new Astra. The Megane, which was introduced in 1996, accounted for by far the largest rise in Renault's fleet registrations between 1994 and 1998 (47,200). The Rover 200 and the Metro have experienced by far the largest falls in Rover's fleet registrations between 1994 and 1998 (22,600 and 19,500 respectively). The Metro was being withdrawn in 1995 when most of its reduction in registrations occurred. The replacement for the Rover 200 was launched in 1999.

Shares by segment

5.127. We now look at the shares of the suppliers in each of the three largest product segments, taking them in order of size. The leading suppliers in these segments are the leading suppliers overall. For comparison we also look at the shares of the suppliers in the executive segment which accounted for 5.5 per cent of new cars registered in 1998.

5.128. Appendix 5.13 shows the volume of new car registrations in the lower medium segment for each of the years 1994 to 1998 and the shares held by the individual suppliers and their groups with a share of about 1 per cent or more of these registrations. Examples of model ranges in this segment are given in paragraph 5.90.

5.129. Ford, which has seen its share fall by six percentage points between 1994 and 1998, was the leading supplier with Rover in 1998, each accounting for 16.3 per cent of the lower medium segment. Rover's share was broadly stable between 1994 and 1998. Vauxhall's share fell by 4.5 percentage points during the period whilst Renault's rose by 7.6 percentage points, each of them accounting for about 11 per cent of the segment in 1998.

5.130. Appendix 5.14 shows the volume of new car registrations in the supermini segment for each of the years 1994 to 1998. Examples of model ranges that are categorized as superminis by the SMMT are given in paragraph 5.90.

5.131. Ford is by far the largest supplier in the supermini segment, accounting for 26.9 per cent in 1998. Its share increased slightly between 1994 and 1998. The major changes in shares in this segment are the collapse of Rover's share which fell from 11.8 per cent in 1994 to 1.5 per cent in 1998 and the increase in Volkswagen's share (2.9 per cent in 1994 and 8.5 per cent in 1998).

5.132. Appendix 5.15 shows the volume of new car registrations in the upper medium segment for each of the years 1994 to 1998. Examples of model ranges in this segment are given in paragraph 5.90.

5.133. The shares held by Ford and Vauxhall in the upper medium segment fell between 1994 and 1998. However, at the group level these falls were reduced by the increases in the shares held by their respective sister companies, Volvo which was acquired by Ford in 1999 and Saab in the case of Vauxhall. Other notable reductions in shares during this period were experienced by Citroën and Rover. Volkswagen saw its share rise.

5.134. This analysis of the registrations of new cars by the three largest segments has shown that the major changes in Ford's and Vauxhall's shares have occurred in the lower and upper medium segments. In the case of Rover, the major changes have occurred in the supermini and upper medium segments. Renault's cars in the lower medium segment have accounted for its major improvement in share.

5.135. Appendix 5.16 shows the volume of new car registrations in the executive segment for each of the years 1994 to 1998. Cars that fall into this segment are the Audi A6, BMW 5 Series, Ford Scorpio, Mercedes-Benz C Class and Vauxhall Omega.

5.136. DaimlerChrysler with its Mercedes-Benz brand is the largest supplier in the executive segment with a share of 33.1 per cent in 1998, 11 percentage points higher than its share in 1994 (22.1 per cent). Other leading suppliers in 1998 were BMW (14.6 per cent), Vauxhall (13.2 per cent), Volvo (12.6 per cent), Saab (8.6 per cent) and VW with its Audi brand (6.6 per cent). Ford and Rover, which are small players in this segment, experienced a loss of share.

Advertising and marketing

5.137. The suppliers stressed the importance of their brand names. Some told us that they were not in the business of selling cars but of selling lifestyle choices. As a result, they needed to protect and enhance their brands at all times. This is one of the reasons why some suppliers saw their dealers as being so important, because they were seen as the suppliers' representatives and not as free-standing businesses in their own right.

5.138. Advertising and marketing are two important means of creating, maintaining and improving a brand name. Suppliers told us of other ways, for example the appearance and layout of the dealers' show-rooms, pricing strategy and product quality.

5.139. The *1999 Advertising Statistics Yearbook* shows that in 1997, advertising expenditure on new cars accounted for 2.4 per cent of consumers' expenditure on new cars. Table 5.12 shows media advertising expenditure by make for 1997 and 1998 and average expenditure for each new car registered.

TABLE 5.12 Media advertising expenditure, 1997 and 1998

Make	Total expenditure £m		Expenditure per car £*	
	1997	1998	1997	1998
Vauxhall	60.7	81.3	206	288
Ford	65.6	69.5	165	172
Renault	53.3	60.5	335	336
Rover/Land Rover	51.4	51.8	237	267
Volkswagen	38.9	45.2	325	352
Peugeot	39.7	43.7	237	241
Fiat	34.4	34.9	389	378
Toyota	30.8	33.9	437	428
Honda	22.1	31.9	397	523
Citroën	31.6	30.6	398	399
Nissan	41.0	26.7	427	263
Volvo	19.1	24.4	471	650
Mitsubishi	13.8	17.0	624	811
Chrysler/Jeep	19.9	16.8	1,136	1,026
Mercedes-Benz	12.3	14.0	288	270
Hyundai	11.8	13.3	460	465
BMW	9.6	12.8	150	200
Daewoo	15.5	12.4	710	407
Audi	15.9	12.3	446	301
Alfa Romeo	10.8	11.9	1,830	1,337
Skoda	1.8	11.8	116	573
Saab	14.2	11.6	851	604
Mazda	7.4	10.7	238	356
Suzuki	4.8	8.7	334	449
Daihatsu	6.4	6.1	976	667
Jaguar	5.9	5.5	620	471
Other	<u>15.8</u>	<u>22.9</u>		
Total	<u>654.3</u>	<u>722.3</u>		
Average			301	321

Source: Commission calculations on data in *Motor Trader* and SMMT data.

*Total expenditure divided by total registrations.
Note: Totals may not sum because of rounding.

5.140. Vauxhall had the largest advertising expenditure in 1998. However, its average expenditure per new car in 1998 (£288) was below the overall average (£321). Ford, which was the second highest spender in 1998, had the lowest average cost per car (£172), well below the overall average. On the whole, the makes with the smaller market shares have the higher average expenditure per car. This is not the case for Mercedes-Benz and BMW, both prestige makes. In 1998 Mercedes-Benz's average expenditure (£270) was lower than the overall average and BMW's (£200) was lower than all the other makes apart from Ford.

5.141. Using the same sources as for Table 5.12 showed that in 1998 media advertising expenditure in the UK per new car registered (£321) was higher than that in Germany (£249) and Italy (£216) but lower than that in France (£370) and Spain (£362).

5.142. Vauxhall told us that the data in Table 5.12 gave the misleading impression that it spent much more on advertising than other suppliers. It said that data produced by Media Monitoring Services were a more accurate reflection of the comparative spending on advertising by the suppliers. These data showed that in 1998 Vauxhall had the highest advertising expenditure (£83 million) but that it was closely followed by Renault and Ford, each spending about £80 million.

5.143. Advertising expenditure varies according to marketing priorities and objectives for individual model ranges. A model range will normally require greater expenditure on advertising at its launch than later in its life cycle. Figure 5.7 shows the average advertising expenditure per new car registered in 1998 for certain model ranges.

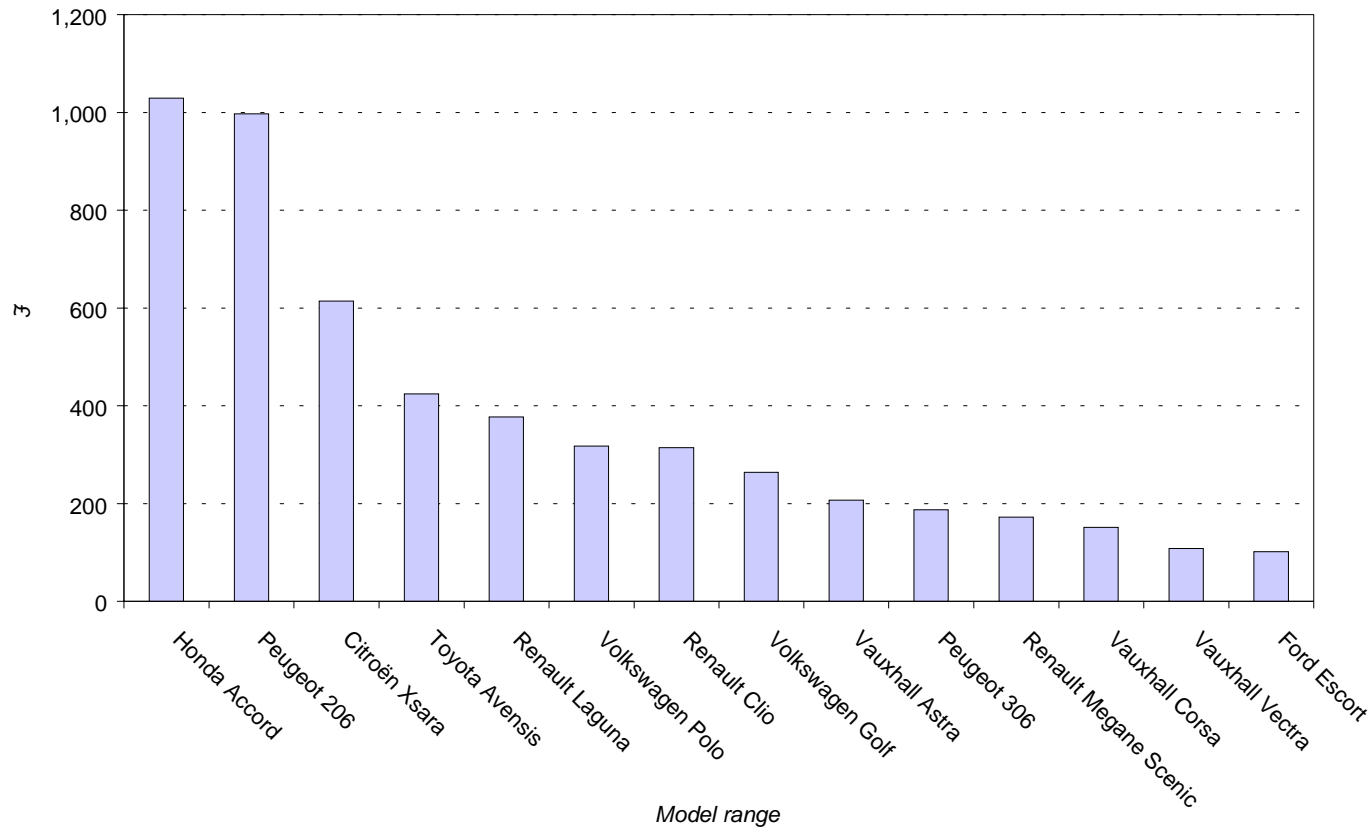
5.144. Three of the four model ranges with the highest average expenditure have been introduced in the UK fairly recently. These are the Peugeot 206 (introduced in November 1998), Citroën Xsara and Toyota Avensis (both introduced in 1997). The exception is the well-established Honda Accord, which had the highest average advertising expenditure (£1,029) in 1998. Peugeot told us that the data were not an accurate reflection of the relative advertising costs for its 206 model range since this was launched in November 1998 and consequently its sales in 1998 were low.

5.145. The suppliers carry out various forms of marketing such as sponsorship of sporting events and direct mail campaigns. In order to show the importance of marketing we asked the leading suppliers to provide us with estimates of their advertising and marketing expenditure broken down into various components. We received data from eight suppliers (DaimlerChrysler for Mercedes-Benz, Fiat (including Alfa Romeo), Ford, Nissan, Peugeot, Renault, Vauxhall and VW for Volkswagen). In 1998 these eight suppliers spent over £620 million on advertising and marketing. Suppliers' own advertising accounted for the largest part of this expenditure—61 per cent. The second largest category was marketing (for example, public relations, promotions, sponsorship and direct mail) which accounted for 24 per cent of this expenditure. The remainder (15 per cent) was accounted for by the suppliers' contribution to dealer expenditure on advertising, marketing, premises and demonstrators.

5.146. The 1999 Car Lost Sales Monitor Survey (see paragraph 7.116) found that 82 per cent of private buyers were not prompted to visit a dealer by a promotion or an offer by the suppliers. Vauxhall told us that the response to this question needed to be seen in context. It said that the question did not cover the broader influence of promotions, for example, in creating and maintaining awareness of brands generally.

FIGURE 5.7

Advertising expenditure per new car registered, 1998



Source: Commission calculations on data provided by the SMMT and as shown in the *Advertising Statistics Yearbook*, 1999