

ME/6647/16

Euro Car Parts / Andrew Page

Response to Statement of Issues

1 Introduction

- 1.1 Euro Car Parts (**ECP**) and Andrew Page (**AP**), together the **Parties**, set out in this submission their response to the Statement of Issues dated 15 June 2017. The Parties intend that this submission will be supplemented as their analysis continues to develop and in response to any papers made available by the CMA, including third-party responses to the Statement of Issues.
- 1.2 The Parties agree with the CMA's planned scope of its investigation and, in particular, with its proposal that the competitive effects of the acquisition on the supply of garage equipment do not need to be investigated in detail at Phase 2.¹
- 1.3 As regards the CMA's investigation of the competitive effects of the acquisition on the supply of IAM car parts, the Parties submit that the merger does not result in a significant lessening of competition (**SLC**) on any market for a number of reasons. In particular:
 - (a) The pre-merger conditions of competition are not the appropriate counterfactual against which to assess the impact of the merger, as the prospect of these conditions continuing is not realistic (see para 26 of the Statement of Issues). As set out at Section 2 below, there is no realistic scenario in which AP could continue to operate in the way it did before September 2016. The effect of the merger should therefore be assessed against the exit of AP from the market. The only possible alternative counterfactual would have been the closure of the majority of the AP network, including its head office and NDC, and the acquisition by Parts Alliance and MPD of a limited number of branches each. However, for the reasons set out in para 2.16 below, the Parties submit that this alternative is not realistic given the actual financial situation in which AP found itself.
 - (b) As regards competition for local IMT customers, section 3 below explains why the Parties are not particularly close competitors and there are a large number of other effective competitors at local level. This includes OEM car parts distributors in those areas in which they are present. Even without considering the effect of the merger against the appropriate counterfactual, the competitive effect of the merger does not lead to an SLC.
 - (c) As regards competition for key account customers, section 4 below sets out an overview of the market and explains why the constraint posed by AP before it went into administration was limited, particularly in comparison to Parts Alliance (which has the largest network in the UK and Ireland). This means that the impact of the merger on key accounts is low, regardless of the counterfactual. As a result, once the removal of AP from the market and the lack of alternative "whole business" purchaser, is taken into account, it is clear that the effect of the merger cannot be to lead to an SLC.
 - (d) Finally, as set out in section 5, the Parties submit that, on top of the effective competitive constraints posed by other car parts distributors, there is sufficient capacity for entry/expansion, particularly entry sponsored or directly by major customers, to ensure that the merger could not result in an SLC.

¹ In light of the CMA's proposal and given the significant amount of information provided by the Parties in response to the CMA's requests for information, the Parties do not intend to provide further submissions on garage equipment in this Response to the Statement of Issues. Nonetheless, they remain happy to provide any such further information as the CMA may find useful and, if appropriate, will respond to any third-party responses relating to garage equipment.

2 The counterfactual

2.1 As set out in detail in AP's response to the CMA's financial questionnaire,² it is clear that the situation in which AP found itself in 2016 could not have resulted in anything other than AP's exit from the market. It is also clear that, despite considerable efforts over the space of 18 months to sell the business, by September 2016 (when an accelerated sales process was the only alternative to insolvency), there was no realistic purchaser for AP other than ECP.

A. Events leading up to the accelerated sale process

2.2 AP was acquired by Phoenix Equity Partners (**Phoenix**) in 2010. Once acquired by Phoenix, it expanded rapidly, opening five branches in 2010, seven in 2011, and a further five individual branches in 2012. In 2012, AP also acquired Camberley Auto Factors (CAF), adding 27 CAF branches in the south of the country. That year, AP opened a 100,000 sq ft National Distribution Centre (NDC). This accelerated pace of development caused cash flow difficulties, and another private equity firm, Endless LLP (**Endless**), was brought in as a second investor in 2014. In July 2014, AP acquired 21 sites from Unipart when it went into administration, which was the high water mark for the network. Three further openings in 2015 and 2016 were offset by other branch closures. In March 2016, AP acquired Solid Auto (UK) Limited, a wholesale distributor of IAM car parts with a specific focus on Asian cars.

2.3 AP's aggressive expansion strategy meant that it faced considerable financing challenges. In December 2014, it obtained an asset based lending (ABL) facility from PNC, with a facility cap of £40 million funded against underlying group stock and debtor assets. However, on the initial drawdown of £33.1 million from the new facility, £25.3 million was immediately used to repay the temporary Endless Loan notes (principal and interest). While the ABL theoretical facility was later increased to £50.0 million, it could only be drawn based on underlying stock and debtor levels and therefore drawdown levels remained at circa £40.0 million.³

2.4 In late 2015/early 2016, several events weakened the company further:

- (a) First, when Parts Alliance acquired GSF, it terminated its relationship with AP (as of 1 November 2015). Parts Alliance had previously acted as a conduit for AP's large key account tender provision and AP had benefitted from Parts Alliance's key account business. When AP was no longer a member of Parts Alliance, its ability to compete for more than a minimal share of large key accounts effectively ended. The immediate impact was that key account sales fell by £9.0 million annualised versus prior year and continued to fall. As contracts are cyclical, the number of years to recover this loss increased quickly as the losses continued.
- (b) Second, the mild winter period from October 2015 to February 2016 caused a reduction of £3.8 million in sales over the respective period versus prior year norms.
- (c) Third, the increases to minimum wage from 1 October 2015 resulted in an increased cost of £945,000 versus the same period in 2015.

2.5 As of May 2016, AP's credit insurers had started to ask more detailed trading questions in light of the disappointing trading results and of reports from AP's suppliers of extending payment delays and increasing levels of short payment. Following this, the credit insurers shortened their credit lines to suppliers, who likewise tightened their terms to AP. As a result, from May onwards, AP

² Response submitted on 20 June 2017.

³ See AP's response to question 18 of the Section 109 Notice.

increasingly experienced supply restrictions, which severely impacted its ability to trade. This had a spiralling, self-reinforcing negative effect. As suppliers tightened credit and restricted supply, fast-selling parts were increasingly unavailable when required. Workshops therefore lost confidence in AP's ability to supply and started to switch their business from AP to alternative distributors. This, in turn, fed into supplier and credit insurers' concerns, which increased the supply restrictions and thus further reduced customer confidence.

- 2.6 Because the trading difficulties had been apparent early in the year, by March 2016 a number of alternative options were being considered by the Board and the investors. These included (a) some additional funding to allow trading on a low-capital basis; (b) funded expansion; and (c) an exit plan via sale to a third party. While none of the options were ruled out during the period April to early September, the focus was on the exit plan, as is clear from the AP Board minutes. By early September, it was determined that additional funding would not be available and the view was that planned insolvency or an accelerated sales process were the only real options. AP therefore focused on the accelerated sales process.

B. No other purchasers for whole business

- 2.7 The accelerated sales process in September 2016 followed from, and built on, efforts to find a purchaser for AP since 2015. Over the space of about 18 months, AP had engaged William Blair and then PwC to engage with potential buyers for the AP business.⁴
- 2.8 The discussions during 2015 and early 2016 involved a wide variety of potential buyers, including (i) other distributors such as Alliance Automotive, Motor Parts Direct (**MPD**), Bennetts car parts, ECP, and Jayar car parts, (ii) investment companies such as Marubeni and Investcorp, (iii) large customers such as Halfords and Kwik-Fit, and (iv) manufacturers/supplies such as Unipart, Tetrosyl and TVS. There was detailed engagement with a number of these potential buyers, including the provision of vendor/due diligence reports and in-person presentations.
- 2.9 Despite these efforts, no agreement had been reached with any of the potential buyers by the summer of 2016. Of those that had proceeded furthest, negotiations with Alliance Automotive (owner of GAU) and ECP terminated in 2015; those with Halfords and Marubeni ended in 2016.
- 2.10 The accelerated sales process began on 12 September 2016, managed by PwC. PwC sought interest from over 40 trading businesses located in the UK and elsewhere, and with a number of private equity houses. It quickly became clear that there were only three companies who would seriously consider acquiring the business: Parts Alliance, MPD and ECP (LKQ).
- 2.11 Of these, only ECP made an offer for essentially the whole of the business.⁵ Parts Alliance offered to acquire 39 sites focussed in the South of England and MPD offered to acquire 21 sites. Eight of the sites that Parts Alliance and MPD offered to acquire overlapped, meaning that a total of 52 (out of 109) sites could have been acquired as an alternative to the Merger. Neither of Parts Alliance nor MPD were willing to acquire the head office or NDC.

⁴ AP's efforts to sell the business in 2015 and 2016 are described in detail in AP's response to question 6 of the Financial Questionnaire.

⁵ In 2015, ECP considered that an acquisition of AP would be a good way to speed up its expansion plans, including by bringing on board staff with experience. At that time, its analysis of synergies indicated that, even after taking account of the proportion of synergies that would be competed away and therefore passed back to consumers, the business, if properly run, would be more profitable than it was. By the time of the accelerated sale process, AP's financial situation had deteriorated significantly and its trading difficulties showed that the business was now bankrupt. However, ECP considered that the type of synergies that had been modelled in 2015 would still be achievable. ECP therefore decided that the acquisition would, subject to the price, be commercially sensible, in that it would allow ECP to expand its business more quickly and cheaply than would otherwise be possible.

C. Conclusion on the appropriate counterfactual

- 2.12 If is clear from the above, and as set out at paragraph 70 of the Phase 1 Decision, absent its acquisition by ECP, AP “*would have become insolvent, ceased operating, and exited the market*”.
- 2.13 No alternative bids were made for the whole of the business during the accelerated sales process. Further, as set out at paragraph 78 of the Phase 1 Decision, “[g]iven the extensive marketing efforts for Andrew Page, the CMA concludes that it does not appear realistic that there existed any substantially less anti-competitive purchasers that (either jointly or on their own) could have purchased the whole (or substantially the whole) of the Andrew Page business other than ECP.”
- 2.14 As a result, in the absence of the Merger, there is no alternative scenario whereby AP could continue to operate as a business in the way it did before it entered administration (and even its pre-administration state was unsustainable).
- 2.15 The only possible alternative to the Merger, therefore, would have been the closure of the majority of the AP network, including its head office and NDC, and the acquisition by Parts Alliance and MPD of a limited number of branches each.⁶ Indeed, the Parties submit that even this alternative is not realistic given the actual financial situation in which AP found itself. As described in ECP’s response to the Financial Questionnaire, the AP business was in far worse shape than ECP thought when it bought the business. Indeed, since the time of the acquisition ECP has had to invest roughly £25 million to cover significant additional costs that were not identified at the time of the accelerated sale process and have only come to light post-acquisition. Had these costs been identified during the accelerated sale process, ECP considers that Parts Alliance and MPD would not have decided to make the offers that they did.
- 2.16 On the basis of the above, the Parties submit that the appropriate counterfactual against which to assess the Merger is the complete exit of AP from the market. The alternative, and less realistic, counterfactual is the exit of AP from the market as a separate business and competitor, offset only to a limited extent by the acquisition of a number of branches by Parts Alliance and/or MPD.

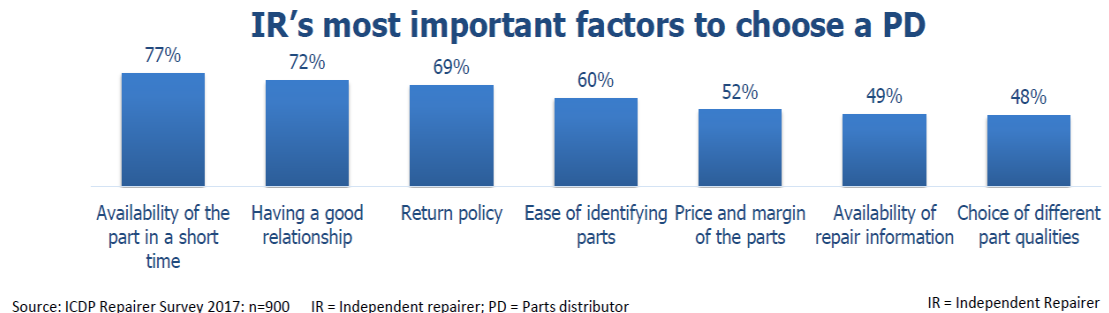
3 No SLC at local level

- 3.1 The market for the distribution of car parts to local workshops is a highly competitive one. Distribution of car parts is not technically complex and requires limited inputs, essentially just a source of parts supply, staff, delivery vehicles, and basic software to run the business. As a result, there are a large number and wide variety of local competitors. The drivers of customer choice reflect this, with all drivers being easily replicable by competitors of all size and customer relationships being a key factor.
- 3.2 In light of the above (as discussed further below), there were, and remain, many effective competitors at local level (including, where they are present, vehicle manufacturers). AP was not a particularly strong local constraint on ECP. As a result, there will continue to be effective local constraints on ECP post-Merger.

⁶ As set out in the Parties’ response to the Phase 1 Decision, given that 8 of those branches overlapped, it is not possible that both companies could have acquired them. The Phase 1 Decision however proceeds on the basis that each of the Parts Alliance and MPD would acquire all of the branches it bid for. As a consequence, this overstates the potential impact of the respective acquisitions.

A. Drivers of competition

- 3.3 Third-party market survey data (2017) clearly shows that the key drivers of competition are easy to achieve and lend themselves to wide variation in local competition. The graphic below sets out the results of the survey:



- 3.4 As the graphic makes clear, customer relationships are critical in this market, making it easy for smaller local players to be fiercely competitive. Indeed, as the Panel will have seen on the site visit to the ECP branch in Croydon, even workshops next door to a distributor may not use them if they do not have a good working relationship or if the workshop has a better relationship with another distributor.
- 3.5 Only slightly higher in terms of customer drivers is availability of parts in a short time. Again, it is easy for smaller local players to compete effectively on this parameter of competition. While ECP (and to a lesser extent AP) hold large stocks on-premises and have these replenished daily from national distribution centres and regional hubs, smaller local competitors avail of direct supply to branches by manufacturers and superfactors, such as FPS, who who carry very broad and deep stocks of parts and offer an in-day delivery service from 23 sites across the country.⁷ Similarly, achieving speedy delivery requires no more than a few vans or motorbikes (leased or owned). This may actually be easier for a small distributor than a large chain, as they can have lower thresholds for adding vans/bikes to their fleet.⁸ Small suppliers will also often focus on servicing customers in their immediate vicinity, which not only ensures speedy local delivery but can also assist in developing successful working relationships with those local customers.
- 3.6 The other top-three driver of competition (significantly, appearing above factors such as price and choice of different part qualities) is returns policy. Product returns are an inescapable and significant feature of supply of car parts (roughly 20 to 25% of products supplied to workshops are returned). As discussed on the site visit, there are a number of reasons for this other than a fault with the part, including over-ordering parts, misdiagnosing the car fault, customer failure to turn up for the planned work, and playing distributors off against one another. Given the intensity of local competition, suppliers simply have to swallow the additional costs of these deliveries and accept the returns. Competing on this front is simply a matter of the distributor's own choice and business model.
- 3.7 Local competitors have easy access to software solutions to assist with the remaining parameters of competition. There are several independent companies (such as MAM, TecDoc, Oates,

⁷ See <http://www.fpsdistribution.com/services-we-provide/>: "Across the UK FPS act as an extension to your warehouse operations, consolidating the offering of over 150 suppliers and brands with no minimum order quantities and next day distribution ... With an established customer base of over 3000 accounts nationwide we have the network to get your product to market. Not only do we handle bulk warehousing, we are also experts in delivering less than truckload quantities to small, large and multi-unit accounts. Providing supply chain efficiencies that enable sales to customers you may otherwise be unable to service."

⁸ For example, while ECP may not consider adding another van unless the branch is making an additional £1,200 worth of sales per day, a smaller distributor may well find it profitable to do so at £800.

Olyschlager) that provide parts identification information. MAM, in particular, offers software solutions that cover essentially all aspects of running a car parts distribution business, from catalogue software and vehicle registration look-up systems to sophisticated stock optimisation and price tracking tools.

B. AP was not a strong local constraint on ECP

3.8 As set out in greater detail in the Parties' response to the Phase 1 Decision, CRA has carried out economic analyses of (i) ECP's discounting practices in both AP and non-AP areas and (ii) the rate of diversion to ECP branches in areas in which AP had been present but then exited⁹. Both sets of analyses show that AP was not a strong constraint on ECP at the local level and that, on the contrary ECP was constrained by a large number of local competitors.

3.9 As regards ECP's discounting, the data show that there is no material difference between the discounts given by ECP sites whether or not there was a rival AP site within the catchment area. CRA's findings are consistent with ECP being constrained by a wide range of local competitors, and thus that AP did not impose a particularly strong constraint on ECP.

ECP discount by site and overlaps with AP within a single catchment¹⁰



Note: Excludes the top and bottom 5% of ECP branches in terms of the discount. Overlap branches include overlaps with all AP branches that were open between April 2016 and August 2016 (including AP branches that were not purchased by ECP).

Source: CRA analysis of ECP data

3.10 As regards the diversion analysis, the rates of diversion to ECP are on average significantly lower than the diversions predicted using the Phase 1 number of competitors in the effective competitor set. CRA's analysis suggests that the Phase 1 effective competitor set excluded a material number of effective competitors (on average, two additional effective competitors across the 11 areas). Again, this evidence is consistent with ECP being constrained by a large number of local competitors, rather than particularly by AP.

Diversion Ratio from AP to all ECPs within 1x the AP catchment



Note: There is no overlap between ECP and AP based on the CMA's catchment area for the closed AP sites in Northallerton and Leatherhead.

Source: CRA analysis based on AP and ECP sales and location data.

3.11 This economic analysis is entirely consistent with the drivers of competition described above. The primary parameters on which distributors compete for local custom are strength of personal relationships with customers, availability of parts within a short period, and returns policy. As set out above, all local distributors can and do compete on these parameters. There is therefore no reason to distinguish between chains such as ECP, AP, Parts Alliance, Automotive Alliance Group, and MPD, on the one hand, and smaller independents, on the other hand; nor is there any reason to consider that the Parties were particularly closer competitors than others in any given location.

⁹ With respect to the diversion analysis, updated results were submitted by CRA on 20 June 2016. The updated results do not change the conclusions in the Parties' response to the Phase 1 Decision.

¹⁰ As a robustness check, CRA also carried out the analysis using the wide two-times catchment area used in the Phase 1 decision. The analysis holds even on this wider basis.

- 3.12 Further, when it comes to considering the constraint posed by local competitors, there is no reason to exclude vehicle manufacturers (whether operating through franchise dealers or through their trade parts divisions). The ICDP survey referred to above estimated that 23% of total orders made by independent repairers were sourced through the OEM channel. Whilst some of this sourcing was because the parts were not otherwise available, 46% of respondents indicated that they had a choice between the OEM and independent parts distributors. Indeed, the survey concluded that: *“OEM-branded parts compete strongly with IAM parts. OE-parts offer a high quality product, covers customer demand and provides good ordering services for IR [independent repairers]”*. It is worth noting that OEMs (such as Peugeot) are also developing brands that are not specifically “OEM-branded” parts. The Parties’ responses to question 1 of the Market Questionnaire and question 31 of the Financial Questionnaire provide details of the significant efforts by vehicle manufacturers (such as Peugeot, Vauxhall and others) to compete directly for the supply of parts to workshops, directly and through multi-franchise operators.

C. Conclusion on local competitive constraint




- 3.13 For all of the reasons set out above, it is clear that, prior to AP’s entry into administration, ECP was constrained at local level by a large number of operators. In any given local area, those operators would include affiliated distributors, local independents and vehicle manufacturers. Each of these categories of competitor is able to compete strongly for local custom on the basis of the key parameters of competition. Further, there is no reason to conclude that AP was a particularly stronger constraint than any of these other competitors at local level.
- 3.14 Regardless of the counterfactual against which the Merger is assessed, it is therefore clear that ECP was constrained by a large number and wide variety of competitors at local level and that it will remain sufficiently constrained by these competitors post-Merger.
- 3.15 The impact of the Merger and the appropriate counterfactual in specific local areas will need to be assessed by reference to actual overlaps (based on appropriate catchment areas) and the identification of the effective competitor set in those specific overlap areas. The Parties will provide submissions on specific local areas as the analysis necessary to carry out these steps develops.

4 **No SLC with respect to key accounts**

- 4.1 Competition for key account customers, although less fragmented than local competition, is nonetheless effective. In particular, key account customers vary significantly, from relatively small companies to truly “national” companies. Competition therefore takes place across this range. The constraint posed by AP was limited, in particular for the bigger key account customers, as its previous competitive strength was largely dependent on being a member of Parts Alliance (a relationship that Parts Alliance terminated in November 2015).
- 4.2 In light of the above, the removal of AP as a constraint on ECP will have limited effect on competition for key account customers. In particular, for larger key account customers, when the appropriate counterfactual is taken into account, it is clear that the Merger will not result in an SLC.









A. Competition for key account customers

- 4.3 As set out in the Parties’ response to the Market Questionnaire, the drivers of competition for key account customers are broadly the same as for local customers. However, in addition, key account customers tend to require one or more of the following services: product delivery to multiple sites, consistent pricing/range across different sites, or central management and back-office support.

- 4.4 Very few key accounts are truly “national” in scope, such as Halfords and KwikFit, with hundreds of sites across all of the UK. Indeed, many key account customers are small customers who happen to have multi-site delivery (perhaps as small as three or four sites) and require some form of centralised offer (whether in terms of having the same price per part or in respect of back-office support and single invoicing). Other key accounts may be larger and require supplies across a bigger number of sites within a region, but they may not want consistent pricing or need particular back-office support.
- 4.5 Further, even the largest key account customers will tender for their core needs (those parts that they require most frequently and for which they may have specific range/pricing requirements) but source the remaining 20% or so on a local site-by-site basis.
- 4.6 Competition for key account customers should not, therefore, be seen as “national” competition for which only those competitors with a national/close to national geographic coverage are effective constraints. Rather, competition for key account customers takes place on a number of levels:
- (a) For the small key account customers, who have only a few sites but require some form of central management or consistent pricing, there are many multi-site competitors. Neither of these requirements is difficult to fulfil – consistent pricing and central invoicing simply requires the distributor to maintain oversight over the prices charged to the customer and to prepare an invoice that aggregates purchases over the relevant period. Effective competitors for these customers would include any distributor that has a presence in the customer’s various locations (whether a chain or independent distributor with more than one branch).
 - (b) For larger, mid-sized key account customers (such as  distributors may need a larger number of branches to serve the customer needs, but a regional (rather than national presence) would still be sufficient. For this type of key account customer, distributors such as Parts Alliance, GAU (owned by Automotive Alliance Group), MPD, IFA, TPS, Vauxhall Trade Group are all effective competitors, as can be seen from the ECP tender data submitted in response to the Phase 1 Issues Letter.¹¹
 - (c) For the truly national key account customers, distributors require the ability to service the majority of the customer’s sites in order to be considered competitive as a “primary” supplier for their core needs. For these customers, the primary distributor for the “core” basket of parts will tend to be either ECP or Parts Alliance, although others, such as GAU, can compete for these customers, as discussed further below. However, there are fewer than 10 truly national accounts, namely . Further, for less-frequently ordered parts, even these larger key account customers will tend to source locally and, thus from a wider competitive set. This can be seen from the key account price matching data provided by ECP in response to question 32 of the Market Questionnaire, where competitors for  include competitors such as MPD and General Traffic.

B. AP was not a strong constraint on ECP for key account customers

- 4.7 Given the competitive situation described above, the constraint posed by AP on ECP with respect to key account customers was limited.
- 4.8 For customers other than the largest key account customers, there are many other effective competitors, thus reducing the importance of AP as a competitive constraint. Indeed, the tender

¹¹ The tender data shows that, of the  tenders that ECP participated in from 2014-2016, Parts Alliance participated in  of tenders, IFA participated in  , TPS in  , GAU in  , Vauxhall Trade Club in  and MPD in  . Notably, other smaller distributors participated in  of tenders.

data relied on in the Phase 1 decision shows that between 2012 and 2016, AP participated in only [REDACTED] of the [REDACTED] tenders that ECP participated in and won only [REDACTED].¹²

- 4.9 For the largest key account customers, AP's competitive constraint was significantly reduced from November 2015, when Parts Alliance terminated its relationship with AP. As a member of Parts Alliance, AP had benefitted from Parts Alliance branch network and from the ability to bid for tenders without active competition from Parts Alliance. Once it was no longer part of Parts Alliance, AP's sales to its key accounts dropped by [REDACTED] between 2015 and 2016. In addition, while AP had continued to participate in tenders in 2016, its success rate had decreased materially. In particular, AP lost significant volumes of sales to its largest customers. For example, its sales to KwikFit fell by [REDACTED] from 2015 to 2016, as shown in the graph below:



- 4.10 Similarly, sales to Micheldever dropped by approximately [REDACTED] after AP left Parts Alliance. As for National Tyres, AP's third largest key account customer in 2015, sales dropped by [REDACTED] following AP's exit from Parts Alliance, before finally ceasing entirely in October 2016. Similarly, AP lost [REDACTED] to the AA.

- 4.11 On the basis of the above, it is clear that the competitive constraint actually posed by AP from November 2015 onwards was minimal and decreasing as regards large key account customers and its ability to compete continued to decline.

- 4.12 In comparison, other distributors are actively seeking to increase their share of key accounts custom. For example, in 2016, Alliance Automotive Group (AAG) acquired FPS Distribution (a superfactor which has 21 wholly owned regional distribution hubs) plus GAU, giving it a branch network with 771 sites in the UK including around 100 wholly owned branches. Together with this wide branch network, AAG now has the stock management and logistics capabilities of FPS, making it a credible alternative to ECP and Parts Alliance. [REDACTED].

- 4.13 Similarly, DAF's contract to service the Royal Mail is a good example of servicing large key account customers through alliances or "virtual networks", as DAF is the primary supplier for commercial vehicle parts, but relies on a network of dealers to provide light commercial and automobile parts.

C. Conclusion on national accounts competitive constraint

- 4.14 For all of the reasons set out above, it is clear that, prior to AP's entry into administration, it offered only a minimal constraint with respect to key account customers.
- 4.15 In any event, as set out in section 2 above, there is no alternative in which the AP business could have continued as a whole absent the Merger in September 2016. Thus, the constraint posed for key account customers, in particular large key account customers, would have been lost regardless of the merger.
- 4.16 For these customers, the acquisition of a number of branches by Parts Alliance and/or MPD (even if realistic) would not have been a less anticompetitive alternative. As regards Parts Alliance, it was already the undisputed primary constraint on ECP for key accounts.¹³ Further, Parts Alliance is already present (through its network) in the local markets associated with all of the 39 branches


¹² It is worth noting that for part of this period AP was a member of Parts Alliance.

¹³ Parts Alliance is the distributor that ECP faces most often in tenders ([REDACTED] of tenders between 2012 and 2016). It is comprised of wholly-owned entities, Parts Alliance affiliates, and "strategic alliances". The wholly-owned and affiliate entities give Parts Alliance a branch network of 161 corporate stores and 38 affiliated locations. Its strategic alliances include the Independent Motor Trade Factors Association (IFA), an alliance reached in November 2015, which enables Parts Alliance to use some of IFA's further 200-branch strong network to plug any geographical gaps in its own branch network.

for which it bid (26 are in areas where Parts Alliance (the company) is already present and the remainder are serviced by a member of Parts Alliance (the organization)). Thus, the acquisition of these branches would not add anything to its position or to the constraint already placed by Parts Alliance on ECP pre-Merger. As regards MPD, it is a strong regional distributor who already exercises a degree of constraint on ECP. This constraint will not materially increase with the acquisition of between 13 and 21 branches (7 of which are in areas where MPD is already present). To the extent that its current reach is insufficient to attract large key account customers, these few additional branches will not significantly extend that reach. To the extent that MPD is already seen by key account customers (in particular smaller key accounts) as a viable supplier, the additional branches will not make a material change to its position.

- 4.17 On the basis of the above, it is clear that the removal of AP as a competitive constraint will not result in an SLC with respect to key account customers.

5 Entry and expansion

- 5.1 The Parties submit that in addition to the effective competitive constraints posed at both local and key account level by other car parts distributors, there is sufficient capacity for entry and expansion, particularly entry sponsored or directly by major customers, to ensure that the merger could not result in an SLC.
- 5.2 There are not significant barriers to entry into this market. The market for the distribution of car parts to workshops is not a technically complex one; there are no IP requirements, no need for the products to be adapted or altered in way, and no need for highly qualified engineering or other staff. In addition, as noted in response to the Market Questionnaire, particularly at local level, there are not long term agreements that would restrict customer switching.
- 5.3 The basic requirements for servicing workshops are a source of parts supply, delivery capability and the staff and software necessary to run the business. These are not difficult or expensive to acquire. As set out above, there are several independent companies (such as MAM) that provide software solutions that cover essentially all aspects of running a car parts distribution business, from catalogue software and vehicle registration look-up systems to sophisticated stock optimisation and price tracking tools. Similarly, buying groups offer the benefits of scale purchasing and associations and alliances offer marketing support, systems and services to new and smaller distributors.
- 5.4 There are similarly few barriers to expansion. Companies which want to grow can do so either by expanding their networks through acquisitions or organically (simply opening new locations). GAU, Parts Alliance, PSA and others have expanded (and are expanding) through a combination of these methods. ECP, historically, relied on opening new branches organically. Expanding within a local area can be done incrementally by expanding on stock and delivery capability (which may or may not necessitate additional space, staff or software, depending on the extent of the expansion). This is a low risk, incremental investment approach that lowers barriers to expansion.
- 5.5 As set out in detail in the Parties's response to questions 31 and 32 of the Financial Questionnaire, there has been recent successful expansion by a number of competitors, including Parts Alliance, Automotive Alliance Group, MPD and Peugeot (PSA), and the Parties expect further expansion in the short term by distributors, vehicle manufacturers and others.
- 5.6 In this respect, the Parties highlight the role that key customers can play in respect of expansion by existing distributors. As ECP expanded from 2010 onwards, large key account customers such as  were actively supportive of its expansion efforts, offering to push sales to ECP as its network

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grew. These customers would be equally capable of supporting expansion by other players. As they have historically multi-sourced product; it would be relatively easy for them to continue to add additional suppliers to replace the small role AP played. In this respect, the Parties note the recent engagement [REDACTED] and [REDACTED]

- 5.7 As an alternative to sponsoring entry, key customers such as [REDACTED] and [REDACTED], are particularly well placed to enter the market directly and, indeed have indicated their willingness to do so. For both of these customers, the costs of entry into the market for car parts distribution to workshops would be minimal, given their geographic range, size/buyer power, and current activities.¹⁴ Both [REDACTED] and [REDACTED] were actively engaged as potential purchasers for AP when it was put up for sale in 2015/2016.
- 5.8 In light of the above, it is clear that there are there are sufficient opportunities for entry and/or expansion in the short term that ECP would remain constrained. This would be sufficient to counter any loss of competition from the Merger and would prevent any SLC that might otherwise arise.