

## TVS EUROPE DISTRIBUTION LIMITED/ 3G TRUCK & TRAILER PARTS MERGER INQUIRY

### SUMMARY OF PHASE 1 DECISION

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

#### SUMMARY

1. On 3 February 2020, TVS Europe Distribution Limited (**TVS EDL**), the holding company of Universal Components (**UC**) acquired the entire issued share capital of 3G Truck & Trailer Parts Ltd (**3G**) (the **Merger**). TVS EDL, including its subsidiary UC, and 3G are together referred to as the **Parties** and, for statements referring to the future, the **Merged Entity**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of TVS EDL and 3G is an enterprise; that these enterprises have ceased to be distinct as a result of the Merger; and that the share of supply test is met. The four-month period for a decision has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
3. UC is active in the wholesale distribution of a wide range of commercial vehicle and trailer parts (including private label (**PL**) and original equipment supplier (**OES**) parts) to the independent aftermarket (**IAM**) in the UK.
4. Similarly, 3G is active in the wholesale distribution of a wide range of commercial vehicle and trailer parts (including PL and OES parts) to the IAM in the UK.
5. The CMA considered the impact of the Merger against the pre-Merger conditions of competition, with the exception that Truck and Trailer Components (**TTC**) should no longer be considered a competitor to the Parties going forward, in light of its decision to cease trading imminently. The CMA took into account relevant market developments where appropriate in the competitive assessment.

## Overview of the aftermarket for commercial vehicle and trailer parts

6. When a commercial vehicle is under warranty, the operator of that vehicle is likely to have it serviced and repaired by the manufacturer itself or by a member of the manufacturer's network of franchised or authorised service and repair centres (**Authorised Aftermarket**), using Original Equipment Manufacturer (**OEM**) parts. Once the warranty expires, the vehicle operator has the choice of continuing to have the vehicle serviced through the Authorised Aftermarket channel or having it serviced in the IAM.
7. The IAM is concerned with the manufacturing, distribution, retailing and installation of commercial vehicle and trailer parts by independent businesses (ie businesses which are independent from commercial vehicle manufacturers).
8. The Parties overlap in the wholesale supply of commercial vehicle and trailer parts to the IAM in the UK. The Parties supply motor factors which, in turn, supply garages, workshops, fleet operator and service centres. The Parties both supply OES and PL parts, with a majority of their sales constituting PL parts. OES parts carry the original equipment manufacturer's name and are typically functionally identical to OEM parts, although OES parts are usually cheaper and may be packaged differently (while OEM parts typically carry the vehicle manufacturer's name (eg DAF), OES parts' packaging usually bears the parts manufacturer's name (eg Bosch)). PL parts are manufactured on behalf of the wholesaler and usually carry the wholesaler's brand name, although sometimes they are unbranded. PL parts are typically cheaper than both OEM and OES parts.
9. The CMA found that independent wholesalers supplying to the IAM are differentiated and fall into distinct categories:
  - (a) *Wide range wholesalers*: wholesalers stocking spare parts for a large range of product groups. They offer a single point of purchase for customers for multiple product groups, and typically assign a higher priority to features such as service offering and a lower priority to technical knowledge, instead maintaining a broad but technically limited knowledge of general truck and trailer parts. The Parties are both wide range wholesalers.
  - (b) *Narrow range wholesalers*: wholesalers stocking spare parts for a smaller number of product groups. For their chosen product groups they typically have a higher degree of technical knowledge and hold a wider range of parts.

- (c) *Niche wholesalers*: wholesalers specialising in the supply of a single product group. They typically place more emphasis on technical knowledge of their chosen product group and stock a greater variety of products within that particular group.
- (d) *Wholesalers that stock parts for specific brands only*: wholesalers who only stock spare parts for particular brands of commercial vehicle or trailer.
10. Some vehicle manufacturers also have an aftermarket arm of their businesses, called 'all makes' programmes. These 'all makes' wholesalers typically do not supply motor factors (ie the Parties' customers). Instead they directly supply garages, workshops, fleet operators and service centres, in competition with motor factors.
11. Both Parties are wide range wholesalers, offering PL and OES parts in a large number of product groups for all commercial vehicle and trailer makes. The CMA found that customers typically do not consider other types of wholesalers (including narrow range, niche, brand-specific and 'all makes') to be close substitutes for wide range wholesalers. The CMA also found that it would be difficult for narrow, niche or brand-specific wholesalers to quickly expand their range to become a wide range wholesaler. The CMA therefore found that the supply of parts by wide range wholesalers constitutes a separate product frame of reference from the supply of parts by other wholesaler types. The CMA considered the 'out-of-market' constraints on the Merged Entity from other types of wholesalers as part of the competitive assessment.
12. The CMA found that the competitive conditions in the UK are different from other jurisdictions. The CMA therefore assessed the impact of the Merger on a UK-wide basis. Within the UK, the CMA found that further segmentation was not appropriate as competitive conditions are the same across the UK.
13. The CMA therefore assessed the impact of the Merger in the wide range wholesale supply of commercial vehicle and trailer parts to the IAM in the UK.

## **Competitive Assessment**

14. The CMA found that UC is a large and well-established wholesaler of a wide range of parts for commercial vehicles and trailers, including both its own PL branded parts and OES parts; 3G also sells a wide range of PL and OES parts for commercial vehicles and trailers across a similar number of product groups.

15. The available evidence on shares of supply indicates that the Merged Entity would be the largest wide range wholesaler of commercial vehicle and trailer parts to the IAM in the UK, with a combined share of [40-50]% and there would be only one other wholesaler with a share above 10%.
16. The CMA found that wide range wholesalers are differentiated, for example in terms of the range of parts offered and their geographical location (ie within or outside UK), such that shares of supply may not fully reflect the impact of the Merger within the relevant frame of reference. The CMA therefore considered the shares of supply alongside the body of evidence on closeness of competition between the Parties and the extent to which other suppliers exert a competitive constraint on them.
17. Evidence from the Parties' internal documents, the Parties' own submissions and evidence from third parties indicated that the Parties are the closest competitors to each other. In particular, the CMA found that:
  - (a) the Parties submitted that UC accepts that it views 3G as its closest competitor, and 3G views UC as a strong or close competitor;
  - (b) the Parties offer similar ranges of part categories, on similar terms and serve similar customer bases;
  - (c) UC's internal documents describe 3G as its closest competitor, closely track 3G and recognise the constraint imposed by 3G;
  - (d) analysis of the Parties' pricing negotiations with customers indicated that customers mentioned the other Party considerably more often than any other competitor; and
  - (e) almost all customers and a large majority of competitors who responded to the CMA's market test considered UC and 3G to be close competitors.
18. The CMA assessed the strength of the constraint from alternative suppliers, including CV Logix, TTC, and other wide range wholesalers (including non-UK based wholesalers). The CMA found that CV Logix is the strongest third-party constraint on the Parties. However, the CMA did not consider that any alternative suppliers, either individually or collectively, would exert a sufficiently strong constraint on the Merged Entity. In particular, the CMA found that:
  - (a) CV Logix is part of a vertically integrated entity that operates buying groups, owns motor factors and acts as a wholesaler of commercial vehicle and trailer parts. At the wholesale level, it has a share of supply of

[30-40]%, offers a wide range of parts comparable to the Parties, and was mentioned by a majority of competitors responding to the CMA's market test as a close competitor to the Parties. CV Logix [X] supplies members of its own buying group and its own subsidiaries and, for them, is likely to exert a constraint on the Merged Entity. However these represent a minority of the Parties' revenue. For motor factors that are not AAG members, which represent the majority of the Parties' revenue, the CMA considers that CV Logix is likely to exert a more limited competitive constraint on the Merged Entity, given that [X]. CV Logix is also monitored less closely in the Parties' documents, appears significantly less frequently in the Parties' pricing negotiations with customers, and customers who responded to the CMA's market test did not consider it to be a close competitor to the Parties. Whilst the CMA considered that on balance the evidence indicates that CV Logix is likely to impose a moderate constraint on the Parties, it found that this would not be sufficient to mitigate the competitive harm from the Merger.

(b) TTC is a long-established wide range wholesaler of commercial vehicle and trailer parts to the IAM. The CMA's market testing indicated that many customers and competitors see TTC's offering and range as being similar to the Parties. The Parties' internal documents also indicated that the Parties monitor TTC, although not as closely as each other. However, the CMA received evidence showing that TTC will withdraw from the UK market in June 2020 and will therefore cease to exercise a competitive constraint on the Merged Entity going forward.

(c) None of the other wide range wholesalers has a share of supply above 10%. The Parties' internal documents, the CMA's analysis of the Parties' pricing practices and third party evidence indicated that these other suppliers pose only a limited constraint on the Parties. With respect to international wide range wholesalers located outside the UK that also serve UK-based customers, the CMA found that relatively few third parties consider them to be an alternative to the Parties. This is consistent with the importance that customers attach to speed of delivery, and the fact that these suppliers typically have longer delivery times than UK-based wholesalers.

19. Further, the CMA found that other types of wholesaler (including narrow range wholesalers, specialist wholesalers (including niche and brand specific) and 'all makes' wholesalers), impose a limited constraint on the Parties. In particular, the CMA found that a majority of customers and competitors do not see these other suppliers as alternatives to the Parties. In addition, these other types of suppliers appeared only infrequently in the Parties' internal

documents and pricing negotiations with customers. In relation to 'all makes' wholesalers, the Parties submitted that these imposed an indirect constraint (as they compete downstream at the motor factor level of the market, by directly supplying to garages, workshops and service centres), arguing that any increase in the Parties' prices would be constrained by motor factors' customers switching away. However, the CMA found that there was insufficient evidence to demonstrate how this potential indirect constraint currently impacts competition at the wholesale supply level where both Parties are active. In particular, the CMA did not receive any submissions from third parties highlighting this potential indirect constraint, and this was not mentioned in any of the Parties' internal documents.

20. Therefore, the CMA considers that the constraint on the Merged Entity imposed by alternative suppliers, including other wide range wholesalers and other types of wholesalers, either individually or in combination, would not be sufficient to prevent competition concerns arising from the Merger.
21. These findings are consistent with UC's internal documents, which suggest that the Merger is likely to result in increased market power, less customer choice, higher prices and/or lower rebates for customers. Responses to the CMA's market testing also indicated that a majority of respondents are concerned about the effect of the Merger on competition.
22. The CMA's market investigation and the Parties' internal documents indicated that barriers to entry and expansion are high. In particular, the CMA found that establishing or expanding a wholesale business to reach a similar scale and range to that of the Parties would involve significant cost and time to build sufficient inventory and establish the necessary customer and manufacturer relationships. The evidence did not suggest that entry or expansion of any of the existing competitors to the Parties would be likely, timely or sufficient in the foreseeable future.
23. In particular, the CMA considered whether Sampa, a Turkish PL manufacturer which has recently opened a warehouse in the UK to supply commercial vehicle and trailer parts to the IAM, could expand significantly in the foreseeable future and provide a similar service to that of the Parties. However, [REDACTED]. Further, a majority of customers and competitors who responded to the CMA's market test did not consider Sampa to be a close competitor to the Parties. While this constraint may increase, the CMA does not consider, on the basis of the available evidence, that Sampa's potential expansion would be sufficient to exert a substantial constraint on the Merged Entity in the near future.

24. The CMA therefore found that the entry of a new wide range wholesaler, or the expansion of an existing wholesaler, would not be likely, timely or sufficient to mitigate any SLC arising in the wide range wholesale supply of commercial vehicle and trailer parts to the IAM in the UK.
25. The Parties submitted that buying groups will continue to exert countervailing buyer power post-Merger. However, sales to buying group members only account for a minority of the Parties' sales revenue, such that those customers to whom a majority of Parties' sales are made will not be protected through association with a buying group. The CMA also notes that UC in particular is a key supplier to buying groups and therefore, post-Merger, the buying groups will not exert sufficient countervailing buyer power. Furthermore, the CMA found that the Merger will remove the closest competitor to each Party, leaving customers with less choice and reduced negotiating power. The CMA therefore found that buyer power will not pose an effective countervailing constraint on the Merged Entity.
26. The CMA therefore believes that the Merger gives rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects.
27. The CMA is considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). TVS EDL has until 9 June to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 22(1) and 34ZA(2) of the Act.