

Completed acquisition by TVS Europe Distribution Limited of 3G Truck & Trailer Parts Limited

Summary of provisional findings

Background

1. On 12 June 2020, the Competition and Markets Authority (**CMA**) referred the completed acquisition by TVS European Distribution Ltd (**TVS EDL**) of 3G Truck & Trailer Parts Ltd (**3G**) (**the Merger**) for an in-depth phase 2 inquiry. The CMA is required to answer the following statutory questions:
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition (**SLC**) within any market or markets in the UK for goods or services.
2. TVS EDL, including its subsidiary Universal Components (**UC**), and 3G (together, **the Parties**) overlap in the wholesale supply of commercial vehicle and trailer (**CVT**) parts in the Independent Aftermarket (**IAM**) in the United Kingdom (**UK**). The Parties wholesale a wide range of CVT parts to motor factors, who in turn sell the parts to garages and repair workshops.
3. UC and 3G are both private limited companies based in the UK, selling throughout the UK, the rest of Europe and other international markets. The ultimate parent company of UC is TVS ASPL, a private limited company based in India. Worldwide turnovers of TVS EDL and 3G in the financial year 2018/19 were £45.8 million (of which UC turnover was £28.1 million) and £14.4 million respectively. Of this, 3G generated approximately £10.8 million in the UK.
4. As part of our phase 2 inquiry, we invited a wide range of interested third parties to comment on the Merger. These included customers of the Parties, competitors, manufacturers and buying groups in the CVT parts industry. We received over 80 responses to our third party questionnaires and obtained additional evidence from calls with 21 third parties. We received several submissions and responses to information requests from the Parties, held hearings with each of them, and carried out an extensive review of internal documents provided by the Parties. We also considered evidence from the Parties and third parties received during the CMA's phase 1 investigation into the Merger.

Relevant merger situation

5. We provisionally conclude that the Merger has created a relevant merger situation within the meaning of the Enterprise Act 2002 (**the Act**) because:
(a) the enterprises of TVS EDL and 3G have ceased to be distinct within the statutory period for reference; and (b) as a result of the Merger, the Parties have a combined share of supply over 25% in the wide range wholesale supply of CVT parts in the IAM in the UK.

Counterfactual

6. To assess the effects of a merger on competition, we compare the prospects for competition with the merger against the competitive situation that would have existed without the merger. This is called the 'counterfactual'.
7. We have adopted the relevant counterfactual as the pre-Merger conditions of competition, except that Truck and Trailer Components (**TTC**), which has now exited the UK market, is no longer a competitive constraint on the Parties. We have taken into account other relevant market developments in the competitive assessment.

Market definition

8. Market definition provides a framework for assessing the competitive effects of a merger.
9. Given that the Parties overlap in the wholesale supply of CVT parts in the IAM in the UK, we have taken this as the appropriate starting point in our analysis to determine the relevant market. We have considered whether the market should be segmented on the basis of the product range offered by wholesalers. We have also considered whether the relevant market should be broadened to include supply by Original Equipment Supplier (**OES**) parts manufacturers to motor factors; and by 'all makes' suppliers (wholesalers set up by truck manufacturers to supply parts for all makes of truck) to workshops.
10. We have provisionally concluded that the evidence supports defining a separate market for the wide range wholesale supply of CVT parts to motor factors in the IAM. Most market participants indicated that different types of wholesalers had different strengths. In particular, customers saw wide range wholesalers as being able to provide a convenient 'one stop shop' for buying a range of parts in a single transaction, whereas narrow range wholesalers were better placed to provide specialist knowledge and a deeper range of parts within the categories they supply and OES parts manufacturers tend to

be used for specialist products and in cases where the product is safety critical or where quality is particularly important. We recognise there is a degree of competitive interaction between wide range wholesalers and narrow range wholesalers, and between wide range wholesalers and OES parts manufacturers, and have taken those constraints into account in our competitive assessment.

11. We have also concluded that 'all makes' suppliers are not within the relevant market as most wholesalers and 'all makes' suppliers did not see themselves as competing with each other, but we have taken any indirect constraint they provide into account in our competitive assessment. We also have not included the Authorised Aftermarket (**AAM**) (ie the truck manufacturers' networks of franchised or authorised service and repair centres) in the relevant market as prices tend to be higher in the AAM than in the IAM, but we have taken any indirect constraint they provide into account in our competitive assessment.
12. We also considered whether the market for the supply of CVT parts in the IAM is regional, national or international. Taking the evidence in the round, we have provisionally concluded that the relevant geographic market is the UK.
13. Our provisional view is therefore that the relevant market in which to assess the effects of the Merger is the wide range wholesale supply of CVT parts to motor factors in the IAM in the UK.

Competitive assessment

14. We considered whether the Merger would enable the merged entity profitably to increase prices or reduce service levels in the wide range wholesale supply of CVT parts to motor factors in the UK IAM, relative to the counterfactual.
15. The market for the wide range wholesale supply of CVT parts to motor factors in the IAM in the UK is concentrated, with the three largest providers accounting for around two thirds of supply. The Merger combines two of the three largest suppliers in the market, giving the merged entity a significantly larger share than any of its competitors.
16. In a number of documents that it prepared to inform the decision on proceeding with the Merger, UC states that the object of the Merger is 'to acquire our closest competitor' and refers to the 'current lack of strong competition' to UC and 3G. The majority of customers that expressed views on the Merger to us raised concerns about such matters, with many of these considering that the Parties were the only credible alternatives to one another since TTC's exit from the market.

17. In addition to UC's internal documents on the rationale for the Merger and the views of customers, we have considered evidence on how much the Parties influence each other's pricing and evidence of customer switching and diversion. Based on our assessment, our provisional view is that the Parties are each other's closest competitors. 3G's pricing appears to be very strongly influenced by UC and, while UC does have regard to a range of competitors, 3G is far more prominent in UC's internal documents on pricing than any other competitor. Similarly, the analysis of UC's internal documents concerning wins, opportunities, and the losses and competitive threats it faces, shows that 3G is the most important competitor to UC. In addition, from the evidence we received, we estimated that half or more of diversion from the Parties would be to one another.
18. We considered the competitive constraints imposed on the Parties by other wide range wholesalers, narrow range wholesalers, OES parts manufacturers, 'all makes' suppliers and the AAM.
19. We provisionally concluded that other wide range wholesalers exert only a limited competitive constraint on the Parties. Each of the wide range wholesalers competes with the Parties to some degree, but there are a variety of factors which limit the constraint that each of them exerts and this is reflected in their low market shares relative to the market share of the Parties. CV Logix, the next largest wide range wholesaler, focuses on sales to other members of its group. Many of the other wide range wholesalers have a more limited range than the Parties and some either do not have or have only recently opened a UK warehouse (which in our view is necessary to be able to compete effectively in the relevant market given the importance of next-day delivery).
20. To some extent, narrow range wholesalers compete against the Parties within particular product categories. However, customers particularly value the Parties' ability to offer a 'one stop shop' which narrow range wholesalers do not offer. Our provisional view is that narrow range wholesalers exert only a limited constraint to the Parties.
21. Many OES parts manufacturers serve motor factors directly. However, they are generally focused on a limited range of products, and customers tend to use them for specialist parts, where quality is critical and for stock orders while using wholesalers for daily purchases. Our provisional view is therefore that OES parts manufacturers exert, at most, a limited competitive constraint on the Parties.
22. We also considered the indirect constraint from 'all makes' suppliers, which do not compete directly against the Parties, but instead compete with the Parties'

customers, the motor factors. Motor factors told us they would be able to pass on a wholesale price rise to their customers, which would not be the case if they were competing closely with 'all makes' suppliers. In view of this, competition from 'all makes' suppliers would not constrain the Parties' ability profitably to sustain price increases. Our provisional view is therefore that 'all makes' suppliers exert, at most, a limited constraint on the Parties.

23. Lastly, we considered the extent to which the supply of CVT parts in the AAM imposes an indirect competitive constraint on the Parties (ie that customers of the garages that are supplied by motor factors would switch from using the IAM to the AAM if the Parties increased their prices). We have seen no evidence in its internal documents that UC takes account of such switching, and the AAM is typically a more expensive option than the IAM, so price-sensitive end users may be unwilling to make such a switch. Our provisional view is that the AAM exerts, at most, a limited constraint on the Parties.
24. In our view, other providers do not collectively exert an effective competitive constraint on the Parties. This is supported by UC's Merger rationale documents and the concerns raised by customers as discussed in paragraph 16.
25. For the reasons given above we provisionally conclude that, subject to any countervailing factors, the Merger may be expected to result in an SLC in the wide range wholesale supply of CVT parts to motor factors in the IAM in the UK.

Countervailing factors

26. We considered whether there are countervailing factors which might prevent an SLC from arising.

Entry and expansion

27. We looked at whether entry or expansion would be timely, likely and sufficient to constrain the merged entity such as to prevent an SLC from arising.
28. We first assessed the extent to which there are any barriers to entry or expansion. We have provisionally found that although opening a warehouse and establishing a sufficient stock of parts requires investment and takes some time, these constitute a low barrier to entry and/or expansion. However, we have provisionally found that the need for a new or expanding wholesaler to develop a strong reputation, and to a lesser extent branding, is likely to be a material barrier to entry and/or expansion.

29. We are of the view that a new entrant would be likely to take at least two years, and possibly longer, to establish a warehouse with access to sufficient stock and also develop a sufficiently credible reputation in the market to enable it to act as an effective competitive constraint on the Merged Entity.
30. We also note that the Parties' internal documents show that it would take around four to five years for a supplier to establish a UK business which would act as an effective competitive constraint on the Merged Entity;
31. We then considered potential sources of entry into, and/or expansion in, the relevant market by looking at the recent history of entry and/or expansion, specific evidence of planned entry or expansion by third parties, and the scope for entry from adjacent or related markets.
32. We have assessed the entry and/or expansion plans of new or existing suppliers in the market, but the evidence provided to us was not sufficient to enable us to conclude that the requisite growth, whether taken individually or in combination, would be likely to be achieved in a timely manner such as to act as an effective competitive constraint on the Merged Entity.
33. In light of the above, our provisional view is therefore that entry and/or expansion would not be likely, timely and sufficient in scope to constrain the Merged Entity such as to prevent an SLC from arising.

Buyer power

34. We also considered whether countervailing buyer power might prevent an SLC from arising in this case.
35. Evidence from customers shows that the ability to order from a 'one stop shop' provider is important to them, and many customers did not see any other provider as being able to provide such a 'one stop shop'. Even if some individual customers have strong negotiating positions, we have not seen evidence that any ability they may have to keep prices down would protect other customers.
36. As with individual firms, the ability of a buying group to exercise buyer power will depend on the availability of alternative providers. Buying groups told us that they do not have easy alternatives for all products currently bought from the Parties. In addition, even if buying groups were able to protect their members, not all motor factors are members of buying groups. There are conditions that buying groups require to be met when considering applications from motor factors to join a buying group such that not all motor factors would be able to join if they wished to.

37. We also note that the UC strategy documents do not show that UC believed buyer power would constrain their pricing strategy after the Merger.
38. Our provisional view is therefore that buyer power would not prevent an SLC from arising in this case.

Efficiencies

39. We have provisionally concluded that the Parties have not demonstrated that the Merger would result in rivalry-enhancing efficiencies such as to prevent an SLC arising in this case.

Provisional conclusions

40. As a result of our assessment, we provisionally conclude that the completed acquisition by TVS EDL of 3G has resulted in the creation of a relevant merger situation.
41. We also provisionally conclude that the creation of that situation may be expected to result in an SLC in the wide range wholesale supply of CVT parts to motor factors in the IAM in the UK.