

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

## **Provisional findings report**

### **Appendices and Glossary**

Appendix A: Terms of reference and conduct of the inquiry.

Appendix B: Financial and synergy projections for the merger.

Appendix C: Third party questionnaires sent to customers.

Appendix D: Third party questionnaires sent to competitors

Appendix E: Parties' submissions on multi-sourcing and switching

Glossary

# Appendix A: Terms of reference and conduct of the inquiry

## Terms of reference

1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (the **Act**) the Competition and Markets Authority (**CMA**) believes that it is or may be the case that:
  - (a) a relevant merger situation has been created, in that:
    - (i) enterprises carried on by TVS Europe Distribution Limited have ceased to be distinct from enterprises carried on by 3G Truck & Trailer Parts Ltd; and
    - (ii) the condition specified in section 23(2)(b) of the Act is satisfied with respect to the wide range wholesale supply of commercial vehicle and trailer parts to the independent aftermarket in the United Kingdom; and
  - (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom for goods or services, including the wide range wholesale supply of commercial vehicle and trailer parts to the independent aftermarket in the United Kingdom.
2. Therefore, in exercise of its duty under section 22(1) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 26 November 2020, on the following questions in accordance with section 35(1) of the Act:
  - (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 within any market or markets in the United Kingdom for goods or services.

**Joel Bamford**  
**Senior Director, Mergers**  
**Competition and Markets Authority**  
**12 June 2020**

## Conduct of the inquiry

3. We published the biographies of the members of the Inquiry Group conducting the inquiry and the administrative timetable for the investigation on the [inquiry case page](#) on 23 June 2020.
4. On 19 June 2020, the CMA directed UC to appoint a monitoring trustee, under paragraph 12 of the Initial Enforcement Order made during the phase 1 investigation. The directions to appoint a monitoring trustee were published on the [inquiry case page](#).<sup>1</sup>
5. On 6 July 2020, we published an issues statement on our [inquiry case page](#),<sup>2</sup> setting out the areas on which the inquiry would focus.
6. On 16 July 2020, members of the Inquiry Group and staff attended virtual ‘site visits’ with the Parties and their advisers held via MS Teams. These arrangements were made because of Coronavirus (COVID-19) and the Government’s associated guidelines.
7. We invited a wide range of interested parties to comment on the Merger. We conducted 21 interviews with customers, competitors and suppliers of the Parties via MS Teams and telephone calls. Evidence was also obtained from third parties using written requests. In total we have received 45<sup>3</sup> written responses from competitors, 42<sup>4</sup> written responses from customers and three written responses from buying groups. We also used evidence from the CMA’s phase 1 investigation into the Merger.
8. We received written evidence from the Parties in the form of submissions and responses to information requests (a non-confidential version of their [response to the Phase 1 Decision](#) is published on the inquiry webpage). In the course of our inquiry we sent the Parties a number of working papers for comment. We also provided Parties and third parties with extracts from our working papers for comments on accuracy and confidentiality. Prior to the main party hearings, the Parties were also sent an annotated issues statement which outlined our emerging thinking at the time.

---

<sup>1</sup> [Directions to appoint monitoring trustee](#).

<sup>2</sup> [Issues Statement](#).

<sup>3</sup> The CMA in addition to the 45 written responses has received a number of minimal responses from other competitors (see Appendix C).

<sup>4</sup> The CMA in addition to the 40 written responses has received minimal responses from other competitors (see Appendix D).

9. We held main party hearings with 3G on 10 September 2020 and with TVS EDL and UC on 11 September 2020. Both of these hearings were held via MS Teams.
10. A non-confidential version of the provisional findings report has been published on the [inquiry case page](#).
11. We would like to thank those who have assisted us in our inquiry to date.

# Appendix B: Financial and synergy projections for the merger

## Financial and synergy projections

1. Table B1 sets out the Merged Entity's financial projections for the financial years 2020 to 2024 set out in TVS's 17 May 2019 document 'Revitalisation of UK Strategy TVS EDL'.

### Table B1: TVS EDL's financial projections including 3G's acquisition

[REDACTED]

2. Table B2 sets out the Merged Entity's synergy projections for the financial year 2021 which it had incorporated in the 24 May 2019 model.

### Table B2: TVS EDL synergy savings projections

[REDACTED]

3. Based on Table B2, TVS EDL told us the following:
  - (a) gross margin gains of £[REDACTED] million in FY21 – that UC initially modelled a margin increase of £[REDACTED] million through the realignment of customer prices. However, it told us that subsequently UC considered that any price increases (to align prices between UC and 3G) would result in higher customer switching to maintain independent alternatives, and the 24 May 2019 model reflected its belief that they would lose £[REDACTED] million of revenue. Therefore, it told us that UC did not believe it could increase prices and that the projections showed no post-Merger increase in revenue, but instead, a reduction in the cost of sales (derived from purchasing cost synergies).
  - (b) [REDACTED] – that after the 'Revitalisation of UK Strategy TVS EDL' slides were created, UC's view with respect to [REDACTED].
  - (c) Customer [REDACTED] – that the customer [REDACTED].
  - (d) Supplier [REDACTED].
  - (e) Transport consolidation of [REDACTED].
4. UC told us that it also conducted further analysis on the potential to lower the post-Merger cost of goods sold due to the higher purchase volumes. In this regard, it provided an email from [REDACTED] email to [REDACTED] ([REDACTED] Director, TVS ASPL, India) dated 9 July 2019:

[REDACTED],[REDACTED]

5. TVS EDL also told us in their response to the Financial Questionnaire that additional post-Merger operational [REDACTED].

## **Our assessment of the financial modelling**

6. The Parties' combined sales figure under the best-case scenario in the April 2019 business plan document mentioned in paragraph 1 is the same as the figures included in the 24 May 2019 model. This implies that those earlier documents continued to be relevant to the Parties' view of the Merger, as of 24 May 2019.
7. The 'Revitalisation of UK Strategy' presentation notes UC's revenue as £29 million and 3G's revenue as £14 million, which gives a consolidated (UC and 3G combined) post-Merger revenue of £43 million. The £43 million revenue is the same as the figure included in the 24 May 2019 model and in the synergy projections.
8. The 'Project Alpha Strategic Review' presentation identifies short-term revenue loss due to adverse customer reaction had been 'built into the financial projection scenarios, with differing levels of severity'. We also note that the same presentation includes three post-Merger financial scenarios – worst case with revenue figures reflect an adverse market reaction, mid case with marginal drop in sales and best case with incremental revenue. The mid-case scenario is based on consolidated revenue projection of £43 million which is equal to the revenue figures mentioned in paragraph 7.
9. The Parties informed us that [REDACTED]. However, in our view this is not supported by the evidence we have seen, including in particular that which is discussed in paragraphs 6 and 8. Therefore, our view is that the financial projections in the [REDACTED] did not take into account the [REDACTED].
10. [REDACTED], discussed in the 'Revitalisation of UK Strategy' presentation (see Table B2), is defined [REDACTED]; therefore we infer that the [REDACTED].
11. Similarly, the Parties' April 2019 internal documents state that [REDACTED].
12. We further note that around [REDACTED]%<sup>5</sup> of the synergies set out in Table B2 are expected from [REDACTED].

---

<sup>5</sup> We have calculated this figure by dividing £[REDACTED].

13. The Parties provided a reconciliation of the pre-Merger and post-Merger profit and loss statements to the 24 May 2019 model. In this regard, we note that the synergy reconciliation for the post-Merger calculated for lost sales is a balancing figure, which is calculated as the difference between 3G's post-Merger cost of sales and post-Merger lost customers and 3G's pre-Merger cost of sales.
14. We agree that there could be potential for [REDACTED] from '[REDACTED]' (see paragraph 4). However, these are additional [REDACTED] that could be realised by the Merged Entity and are not incorporated in the [REDACTED].
15. Regarding the [REDACTED] (see paragraph 33(b)), the Parties told us that it was [REDACTED]. However, we note that [REDACTED] already incorporated [REDACTED], and that the Parties had not provided any contemporaneous evidence of the change in assumption. Therefore, in our view the [REDACTED].

## Appendix C: Third party questionnaires sent to customers

### Sampling methodology

1. In order to gather evidence on the views of the Parties' customers, we contacted a sample of motor factors who purchased CVT parts from either or both of the Parties in financial year (FY) 2019. The Parties submitted contact details for 777 customers (163 customers of only 3G, 266 customers of only UC, and 348 customers of both UC and 3G).<sup>1</sup> Based on typical response rates observed in similar business to business markets, we considered that it was necessary to contact at least 300 customers to obtain a sufficient number of responses. We decided to sample customers over the whole size distribution but to over-weight the share of larger customers in the sample because the preferences of larger customers are likely to be a more important driver of merger effects and responses from such customers were likely to be more informed (eg because they have knowledge of more suppliers).
2. For each Party, we ordered customers by the value of purchases made in 2019 where this was known.<sup>2</sup> We then divided the subset of customers who purchased more than £10,000 into three subgroups of equal sizes. We sampled 100% of customers in the first group (ie customers with the largest purchase values), 50% of customers in the second group, and 33% of customers in the third group.<sup>3</sup> We considered that customers who purchased less than £10,000 from the Parties were less likely to provide informative answers, and therefore we only sampled 20% of such customers. We also sent the questionnaire to an approximate 25% random sample of customers for which we did not have sales data.
3. Based on this approach, we contacted 341 customers. The customers in this sample for whom we had sales data accounted for 77% and 85% of 3G's and UC's sales by value in financial year 2019, respectively. Of the 341 customers, 44 customers were only customers of 3G, 60 customers were only customers of UC, and 237 customers were customers of both of the Parties. Some of these customers were branches of larger companies. Table C1 below provides more detail on the composition of our sample.



**Table C1: Composition of sample contacted**

<i>Value of purchases from Parties</i>	<i>Customers of 3G only</i>	<i>Customers of UC only</i>	<i>Number of customers Customers of both 3G and UC</i>	
			<i>Value of 3G purchases</i>	<i>Value of UC purchases</i>
Large	12	16	29	53
Medium	4	8	31	35
Small	1	9	21	22
<10k	12	11	24	17
No sales data	15	16	132	110
Total	44	60	237	237

Source: CMA analysis.

1. 64 of customers labelled as 'no sales data' refer to branches for which we did not have sales data at the branch level but we did at head office level. All the branches were contacted as these related to large customers that were picked in the sampling of sales data and we did not succeed in contacting the head office.

2. The last two columns categorise customers of both 3G and UC according to the value of purchases that those customers make from 3G and UC, respectively. For example, when those 58 customers are ranked according to the value of purchases that they make from 3G, 13 of them would be categorised as 'large'. On the other hand, when the same 58 customers are ranked according to the value of purchases that they make from UC, 19 customers would fall into the 'large' category.

## Structure of questionnaire

4. Based on the customer evidence received at phase 1 (both questionnaire responses and call notes), in our view the majority of the Parties' customers were able to engage with both quantitative and qualitative questions about their purchasing behaviour and preferences. We therefore decided to use a structured questionnaire combining simple questions based on tables or multiple-choice designs with more complex, 'open' questions.
5. The questionnaire started with a number of relatively simple questions designed to elicit both factual information about the type and range of suppliers used and the reasons why customers use different suppliers. The questionnaire then asked a diversion-type question to elicit information about customers' second-best alternatives to UC and 3G (this is covered in more detail in paragraph 12(e) below). The questionnaire also asked a series of more 'open' questions that we considered useful for the assessment of customer preferences, including whether customers recognised the distinction between wide- and narrow-range suppliers, and whether they consider themselves to be in competition with all-makes suppliers.<sup>4</sup> The questionnaire ended with a general question asking respondents to comment on the possible effects of the Merger on their business.
6. When chased, seven customers said they were reluctant to respond to the whole questionnaire. We sent a shorter, simplified version of the questionnaire to these customers and to other customers who had not responded to our chasing, for a total of 11 short questionnaires sent. In this shorter version, we focused on asking customers about the suppliers they use and the reasons for using different suppliers, the diversion-type questions, the questions about competition with 'all makes' suppliers, and the general question on the possible effects of the Merger on their business.

## Responses and follow-up

7. We received 40 written responses<sup>6</sup> sent on behalf of 86 of the customers we contacted (some customers responded on behalf of several different branches that we contacted separately). Four of these responses were based on the shorter version of the questionnaire referred to in paragraph 6. Table C2 below provides more detail on the provenance of the written responses by customer type. These written responses represent [X]% and [X]% of UC and 3G sales revenues respectively in 2019.

**Table C2: Composition of responses received**

<i>Value of purchases from Parties</i>	<i>Number of customers</i>			<i>Value of 3G purchases</i>	<i>Value of UC purchases</i>
	<i>Customers of 3G only</i>	<i>Customers of UC only</i>	<i>Customers of both 3G and UC</i>		
Large	3	6		13	19
Medium	1	0		4	5
Small	0	1		6	4
<10k	1	1		4	3
No sales data	5	10		31	27
Total	10	18		58	58

Source: CMA analysis.

8. We also collected some answers to our questions orally from Digraph, who is both Parties' largest customer and has 24 branches.
9. We sent clarification questions by email to a number of respondents who provided ambiguous or incomplete answers to some questions. We also scheduled follow-up calls with a number of customers, based on their size (we approached the Parties' largest customers, and the two largest customers in the medium and small tiers).

## The Parties' comments on our customer questionnaire and our response

10. The Parties submitted that many of the questions in our customer questionnaire asked customers about their purchases of CVT parts in general. The Parties said that this was not how customers made purchasing decisions and, as such, the questions were predicated on a single market for CVT parts, and did not seek to test whether customers believed there were differences in competitive conditions between product categories.
11. Our focus in this questionnaire was on understanding demand for the services offered by the Parties, ie wide range wholesalers. Asking detailed questions

<sup>6</sup> As of 15 September 2020.

about each product category would neither have been practical, nor would it have addressed the question of why and in what circumstances customers choose to purchase from one of Parties rather than from alternatives such as specialists.

12. As regards specific comments made by the Parties:
- (a) The Parties submitted that suppliers who focused on one or a smaller number of product categories may be significantly under-represented in respondents' lists of their 10 most important suppliers in question 3 because customers do not purchase all their requirements from them. We recognise this is a possibility. However, many respondents identified specialist suppliers in response to the question, allowing us to ask follow-on questions about this type of supplier.
  - (b) The Parties said that differences in the frequency of ordering between suppliers may reflect the fact that customers purchase from multiple product fields from the Parties while they purchase from a single product field from those suppliers focused on one or a smaller number of product categories. However, in our view, this in itself is an important difference between wide range wholesalers and specialist suppliers.
  - (c) The Parties submitted that ranking the importance of criteria when choosing between suppliers fails to capture differences in the drivers of choice across product fields. However, in our view, the questionnaire responses give us a reasonable indication of the relative importance of these criteria. To ask customers to rank a set of criteria across each of a large set of product categories would not have been practical – ie we could not have expected customers to respond accurately to such a complex question.
  - (d) The Parties also submitted that our questions about price negotiations did not capture differences between product categories, and that apparent differences between suppliers may reflect such differences between categories. The Parties have not supported this submission with reference to any reasons as to why customers should take a different approach to price negotiation from one product category to another. In any case, these questions relate to UC and 3G, who supply customers within a broadly similar range of products categories.
  - (e) The Parties further submitted that diversion questions would fail to capture or significantly understate the constraint from suppliers who may be effective alternatives for the customers in certain but not all product categories, because the first part of these questions asks customers to

focus on all purchases from the Parties and then asks them to focus on diversion to a single alternative supplier across these products. However, in our view, asking customers to consider diversion (in a hypothetical scenario) across many product categories would not have elicited reliably accurate responses. In any case, the question asked customers to provide details of other suppliers they would have switched to, including the product categories concerned. In response to these questions, most customers identified between two and 39 different suppliers, with only seven out of 37 identifying a single alternative.

- (f) Finally, the Parties submitted that questions about the constraint from ‘all makes’ suppliers may understate this constraint, if these suppliers do not compete with motor factors across the full range of CVT parts. The Parties have not explained why this would lead to an understatement – we would expect that if ‘all makes’ suppliers only competed with motor factors across a subset of CVT parts, the competitive constraint on motor factors, and hence the indirect constraint on the Parties, would be less than if ‘all makes’ suppliers competed on the full range.

## Appendix D: Third party questionnaires sent to competitors

1. To gather evidence and views from the Parties' competitors, we sent a questionnaire to all of the companies identified by the Parties in their response to the Initial Factual Questionnaire as being competitors. The list provided by the Parties had around 130 competitors that included different types of wholesalers, OES parts manufacturers and 'all makes' suppliers.. The questionnaire asked for factual information, such as the supplier's revenues, the product fields and the number of SKUs supplied, etc. It also asked competitors a series of more 'open' questions that we considered useful to understand the extent of competition between the Parties and the competitive constraints on them.
  
2. We have received completed responses from 40 competitors:
  - (a) 22 wholesalers;<sup>7</sup>
  - (b) 17 OES parts manufacturers;
  - (c) One all-makes supplier (Roadcrew).
  
3. Table D1 below sets out details of the breadth of products supplied by wholesalers that responded to our questionnaire and their size in terms of total revenues generated from the wholesale supply of CVT parts in the IAM in the UK (2019). Table D2 below sets out the 45 product fields identified by UC.

**Table D1: Wholesalers' responses to third party questionnaire**

<i>Wholesaler</i>	<i>UC's product fields</i>	<i>Total revenues</i>	<i>£</i>
Inter Cars	44	[X]	[X]
CV Logix	41	[X]	[X]
Diesel Technic	35	[X]	[X]
DT Truck*	31	[X]	[X]
Majorsell	29	[X]	[X]
Sampa†	27	[X]	[X]
Imexpart	26	[X]	[X]
Febi	23	[X]	[X]
DSS	21	[X]	[X]
Amipart	20	[X]	[X]

---

<sup>7</sup> We have also requested information on revenues and product fields supplied from DT Trucks, Peters, Gardner Parts and Omnipart, but they did not complete the questionnaire. Omnipart stated that they primarily supply components direct to companies who repair and rebuild engines, while Gardner stated that they focus on rebuilders of truck gearboxes. Peters stated that they only sell to wholesalers.

<i>Wholesaler</i>	<i>UC's product fields</i>	<i>Total revenues</i>	<i>£</i>
EBS	16	[X]	
Guardian	14	[X]	
Granning	11	[X]	
Peters*	9	[X]	
Durite†	8	[X]	
Borg & Beck	7	[X]	
Automint	6	[X]	
Nationwide Trailer Parts	6	[X]	
Roadlink	5	[X]	
Fleet Parts	5	[X]	
Winnard§	4	[X]	
ST Templin	4	[X]	
Juratek	3	[X]	
Omnipart*	3	[X]	
Dinex	2	[X]	
Gardner Parts*	2	[X]	

Source: Information provided by third parties on revenues and product fields; DSS information on product fields was provided by Parties.

\*Did not complete the questionnaire; only revenues and product fields supplied provided.

†Includes all revenues, ie the revenues are not limited to revenues generated from parts of commercial vehicle and includes revenues generated from sales to vehicle builders

§Includes sales 'to OES'.

**Table D2: Product categories identified by UC**

Adhesives and Chemicals	Caliper	Engine Electrical	General Lighting	Regulation Requirements
Air Brake	Chassis Components	Engine Sub Components	Hub Component Parts	Safety Wear
Air Brake Coils and Couplings	Cleaning and Degreasing	Exhaust	Hubs	Slack Adjusters
Air Suspension	Clutch	Fifthwheel	Internal Switches	Steering
Axle Braking	Consumables	Filtration	Lighting	Storage and Security Devices
Body Fitting	Cooling	Fittings	Lubricants	Switchgear
Cabin	Drawbar	Front End Lighting	Mechanical Suspension	Tail Lift
Cabin Suspension	Drive Components	Fuel System	Power Conversion	Tools
Cable	Electrical Accessories	Gear Box	Rear Side Interior Lighting	Vehicle Safety

Source: Third party questionnaire sent to competitors, based on list of product fields provided by Parties

4. To gather further information, we also had calls with twelve suppliers that included different types of wholesalers, OES parts suppliers and 'all makes' suppliers.<sup>8</sup>
5. Several suppliers (Cojali, Ashtree, Fuel Defend, Jost, Trucklite, Bailey and Morris, ZF, CBF, Ecco, Schaeffer) that the Parties included in their list responded stating that they do not see themselves as being in competition with the Parties and that they are a supplier to one or both of the Parties

<sup>8</sup> Unipart (TTC) (wholesaler), Sampa (wholesaler), CV Logix (wholesaler), Granning (wholesaler), Dinex (wholesaler), Diesel Technic (wholesaler), EBS (wholesaler), Inter Cars (wholesaler), Amipart (wholesaler), Jonesco (OES parts manufacturer), Boydell and Jacks (OES parts manufacturer) and Roadcrew ('all makes' supplier).

and/or they supply vehicle manufacturers; they therefore did not complete the questionnaire. Ecco nevertheless submitted its views on the Merger's impact on competition which we have included in our assessment. Of the 'all makes' suppliers, two 'all makes' suppliers MAN and Scania did not respond to the questionnaire stating that they do not consider that they are competitors with the Parties, while TRP did not respond to our questionnaire.

# Appendix E: Parties' submissions on multi-sourcing and switching

## Introduction

1. This appendix provides our assessment of the analysis of the Parties' sales transaction data carried out by CRA (economic advisers to the Parties) and submitted by the Parties (see 5.27 and 7.70 of the provisional findings report).

## Multi-sourcing

2. The Parties have submitted that customers do not 'one stop shop'. In summary, they submitted an analysis of their transaction data which they contend shows that a significant proportion of their sales goes to customers who only purchase a small proportion of their product groups from either Party. They submitted that, as their customers are motor factors who must supply the full range of CVT parts, this implies that customers are purchasing many parts from other suppliers, which in turn implies that their customers do not have a preference for 'one stop' shopping.
3. On customers multi-sourcing, the Parties have submitted that:
  - (a) a significant proportion of their sales goes to customers who only purchase a small proportion of their product groups. In particular, the Parties state that 50% of UC's sales come from customers who purchase less than [X]% of UC's product groups, and 50% of 3G's sales come from customers who purchase less than [X]% of 3G's product groups;
  - (b) as their customers are motor factors who must supply the full range of CVT parts, this implies that customers are purchasing many parts from other suppliers;
  - (c) this, in turn, implies that their customers do not have a preference for 'one stop' shopping.
4. We do not dispute that the Parties' customers multi-source to a significant extent. However, this does not imply that customers do not value the option of sourcing some of their purchases from suppliers that can offer a wide range of parts. Where customers value such an option, then narrow-range suppliers would likely exert only a limited constraint on the Parties.
5. The Parties subsequently provided further analysis which seeks to identify whether there is a set of products for which customers have a preference for one stop shopping and for which the Parties could therefore raise the price.



The Parties concluded from the analysis that customers are not buying the same sets of parts.

6. In our view, there is no need for customers to be buying the same basket of goods for them to value buying baskets from a limited number of suppliers – the basket(s) may even vary over time for individual customers. The point is that customers value the possibility of reducing the number of transactions in order to reduce carriage charges, administrative and logistical costs, and maximise rebates.
7. The Parties further submitted that price discrimination on the basis of looking at what each customer purchases over time is not possible. They told us that even if motor factors had differing preferences to buy different sets of parts from a single supplier, it is extremely difficult to see how the Parties could increase the price to only the combination of customers and parts for which there was such a preference. First, the Parties would need to know each of the set of parts that each customer has a preference for buying in a single basket from a single wholesaler at any point in time. Second, the ability to price discriminate is further complicated by the fact that for any given customer, their basket of parts is likely to include parts for which that customer does not have a strong preference for single-sourcing (eg secondary purchases or purchases driven by other factors such as price or the wholesaler's degree of technical expertise in relation to that part) as well as parts for which they do have a preference for single-sourcing.
8. In our view, it is not necessary for the Parties to have perfect information about the preferences of their customers for the Merger to lead to a price increase. Our analysis of the Parties' price negotiation correspondence (paragraphs 7.45 – 7.48 in the provisional findings report) shows one mechanism by which prices are set in this industry: when negotiating the price of a particular product with the Parties, customers obtain quotes from alternative suppliers, and use these quotes as 'leverage' to obtain a better price from the Parties. If a customer has a preference for buying a particular item as part of a broader basket, it will naturally seek a quote from another supplier that can also provide a basket of goods.<sup>9</sup> In that context, the removal of a supplier capable of providing a suitable basket of goods reduces the bargaining power of that customer. There is no need for the Parties to know the preferences of that customer for the Merger to lead to higher prices compared to the counterfactual: the customers concerned would simply be

---

<sup>9</sup> This need not be the same basket of goods. A customer with a preference for using a limited number of suppliers might still decide to source different baskets from different suppliers.

less able to obtain competitive quotes that they can use as credible threats, and therefore less able to negotiate prices down.

9. The Parties have raised four objections with respect to this mechanism:
  - (a) First, they state that direct price matching – and the overstrikes that lead to such price matching – are a very small proportion of sales. For example, for UC, total overstrikes constitute only about [~~3~~] % of its sales. Therefore, as a purely practical matter it means that for the vast majority of sales, the Parties would not be able to observe any signal and hence would not be able to differentiate price;
  - (b) Second, they submit that price matching is more likely to be a signal that the customer is looking for the best available price rather than indicating a preference for one stop shopping;
  - (c) Third, they submit that customers could readily defeat this mechanism by quoting prices from specialists instead;
  - (d) Finally, they submit that it is not clear how this mechanism would work in practice. If the Parties are thought to be the only wide range suppliers, post-merger there will not be a mechanism that would allow the Parties to reveal customers with single-sourcing preferences.
  
10. In our view, these points are not valid, for the following reasons.
  - (a) With respect to the first point: first, we consider that this mechanism may apply in various situations where prices are negotiated bilaterally, rather than solely in the cases of direct price-matching covered by UC's overstrike reports (we assess these in detail in the competitive assessment – see Chapter 7); second, we note that the Parties use the intelligence gathered through price negotiations in broader benchmarking exercises (paragraph 7.56, the provisional findings report), such that the rivalry that crystalizes in bilateral negotiation is likely to have a broader impact on their pricing strategy; third, even if it was true that bilateral bargaining accounted for a small share of the Parties' transactions, and by implication that most transactions were settled based on 'list prices', this would in fact open up alternative mechanisms by which preferences for buying baskets could translate into price increases post-Merger. In that scenario, which is the most common scenario under which horizontal

unilateral effects are considered, the Merger is likely to lead to a price increase simply if diversion between the Parties is high.<sup>10</sup>

- (b) With respect to the second point, this misunderstands the way this mechanism operates. As explained in paragraph 8, in this mechanism it is not necessary for the Parties to form a view on the preferences of their customers. Customers who have a preference for buying baskets are less able to find credible alternatives in their negotiations, and therefore less able to negotiate prices downward compared to the counterfactual situation.
  - (c) With respect to the third point, our view is that ‘bluffing’ is unlikely to be an effective negotiation strategy for customers. Suppose that the Merged Entity suspects that some customers are bringing up quotes from narrow-range suppliers that they have no intention of using. Rejecting a request involves a cost for the Merged Entity, which is the probability that the threat is genuine and the customer will switch, but it also involves a benefit, which is the probability that the threat is not genuine and the customer will keep buying the part (and will have its preference for buying baskets exposed). In a context where the Parties and their customers interact regularly, such as in the present case, bluffing is unlikely to be effective.
  - (d) With respect to the fourth point, as discussed in paragraph 8 this mechanism does not require the parties to have perfect information about the preferences of their customers. If the merger removes an important alternative for the Parties’ customers, these customers will find it more difficult to find credible alternative quotes that they can use as leverage in negotiations with the merged entity.
11. For these reasons, in our view, there is at least one plausible mechanism by which preferences for buying baskets could translate into price increases post-Merger.
  12. In addition, our view is that the Parties could also exploit preferences for buying baskets by reducing volume-related rebates post-Merger. The Parties have submitted that this would not accord with normal business practices, as the Parties would need to increase prices (or reduce discounts) the larger the basket purchased from the Parties. In fact, the Parties already offer volume-related rebates to some of their customers and UC’s internal documents show that it expected that the Merger would enable it to reduce such rebates (paragraph 7.82(d), the provisional findings report). The Parties have also

---

<sup>10</sup> [Merger Assessment Guidelines](#), paragraphs 5.4.6 to 5.4.9.

submitted that this mechanism assumes that customers have a preference to single-source all the parts purchased in a basket at any point in time. This mechanism makes no such assumption, as rebates are granted based on annual volume targets.

## Switching

13. The Parties have sought to use their combined transaction data to identify instances of customers switching between them. This analysis identifies a 'loss event' as a situation where one of the Parties sells a particular part to a customer for three consecutive months, and then registers no sale of that part to that customer for the subsequent three months. The analysis identifies a 'switching event' as a situation that meets the criteria of a loss event and where the customer is observed to increase its purchase of the equivalent part from the other Party in the three months following the loss event. To calculate the proportion of the lost revenue of one Party that is subsequently picked up by the other Party, the total value of all switches is divided by the total value of all customer loss events that occurred in the calendar year. The Parties state that, based on this approach, in 2019 3G picked up [X] % of UC's lost sales, and similarly UC picked up [X] % of 3G's lost sales. In a sensitivity calculation using a six-month definition of losses and gains, these estimates of switching increase to [X] % and [X] %, respectively. In another sensitivity calculation also using a six-month definition of losses and gains and assuming that any increase in quantity by one Party is considered as a complete switch from the other, these estimates of switching increase to [X] % and [X] %, respectively.<sup>11</sup>
14. We have some reservations with the robustness of these estimates. The Parties' base-case analysis implicitly assumes that customers purchase all parts at a constant rate: if a customer stops purchasing a part from one Party, it is implied that this customer is sourcing the exact same quantity of that part from alternative suppliers. However, in our view, it does not follow that this is a reasonable assumption. If there is variability in customers' purchases of individual parts, the Parties' approach will necessarily overstate the extent of switching to other suppliers. If a customer stops purchasing a part from one Party and does not increase its purchase of that part from the other Party by the same amount, this is interpreted as evidence that the customer has used another supplier for the difference, while in fact it may be the case that the customer has not purchased this part over that period from any supplier, or has purchased a smaller quantity of that part. In fact, UC's internal documents show that such situations are very common: in [X] % of the cases where a

---

<sup>11</sup> Provisional findings report, paragraph 7.70

sales representative identified the cause for a drop in demand by a particular customer, this was not related to a switch to a competitor (paragraph 7.69, the provisional findings report.).

15. The Parties have submitted that their analysis of switching includes various sensitivities to ensure that situations where demand has dropped to zero for reasons other than switching were excluded from the count of 'loss events'.
16. We are not persuaded that this is the case. Using a six-month period to evaluate loss and switching events mitigates issues related to short-term fluctuations in demand, but it does not control for situations where customers stopped purchasing certain parts altogether, or durably reduced their demand of certain parts. Focusing on the top 1,000 fastest moving parts may not perfectly control for such situations either: the fact that the Parties sell these products at the fastest rate in aggregate does not imply that every motor factor buys these products at a constant rate. Motor factors might have different demand profiles, and their demand might change over time, for example based on changes in their portfolio of customers or the activity of their customers. Finally, the exclusion of obsolete parts, and the grouping of superseded parts, only controls for permanent drops in demand due to technical reasons. In reality, a motor factor may stop purchasing a part for other, economic reasons, for example if one of its clients loses a contract for a particular fleet or type of vehicle.
17. The second sensitivity emphasised by the Parties – which treats any increase in quantity at one Party as a complete switch from the other – only partly relaxes the assumption of constant purchase rates. If, following a loss event, a customer is observed to increase its purchase of the equivalent part from the opposite Party by a smaller amount, it is implicitly recognised that this customer may have reduced its total purchases of that part. If, however, a customer is not observed to increase its purchase from the opposite Party at all, it is assumed that this customer is sourcing the same total value of parts from an alternative supplier. There is no clear rationale for that assumption, and no obvious reason to regard it, as the Parties have submitted, as 'highly conservative'.
18. The Parties submitted that their switching analysis 'provides evidence of what the Parties' customers actually do [their emphasis]'. In our view this is not correct – the Parties have no direct information on what their customers actually do, other than that collected in their CRM database which we have analysed separately. Instead, their switching analysis reflects some assumptions about what customers do, namely that they purchase certain parts at constant rates over certain periods of time. It is not possible for us to verify the validity of these assumptions. In evaluating the degree of switching

that occurs between the Parties it is reasonable for us to place more weight on the information drawn from the CRM database, which is collected by the Parties in the normal course of business and includes intelligence on customer behaviour gathered by UC's sales staff.

19. Overall, because this analysis cannot control for all possible factors impacting demand, it is likely to underestimate switching between the Parties. In our view, UC's own internal review of its 'leakages' provides a more robust basis for estimating the extent to which it loses sales to 3G, since it incorporates the information gathered by its sales staff regarding the possible different causes for leakages.

## Glossary

Term	Definition
<b>3G</b>	3G Truck & Trailer Parts Ltd
<b>AAM</b>	<b>Authorised Aftermarket:</b> When a commercial vehicle is under warranty, the operator of that vehicle is likely to have it serviced and repaired by the vehicle manufacturer itself or by a member of the manufacturer's network of franchised or authorised service and repair centres, known as the <b>Authorised Aftermarket</b>
<b>All makes wholesalers / All makes suppliers / All makes</b>	'All makes' are the wholesale divisions of vehicle manufacturers offering parts for all brands of commercial vehicle and trailer to the aftermarket.
<b>Buying Groups</b>	Buying groups are trading groups of independent motor trade factors that negotiate supply deals with parts wholesalers on behalf of their members. The buying groups may also offer a number of other centralised functions to their members such as central invoicing, centrally collected rebates, central payment handling, marketing support, participation in trade events and training.
<b>CAGR</b>	Compound Annual Growth Rate
<b>CMA</b>	The Competition and Markets Authority
<b>CVO</b>	Commercial Vehicle Operator
<b>CVRP</b>	Commercial Vehicle Repair Centre
<b>CVT</b>	Commercial vehicle and trailer
<b>IAM</b>	Independent Aftermarket: The <b>IAM</b> refers to the aftermarket that is outside the truck manufacturers' networks of owned, franchised or authorised service and repair centres.
<b>Motor Factor</b>	A supplier of <b>IAM</b> parts (including <b>CVT</b> parts) to the independent motor trade
<b>OEM</b>	Original Equipment Manufacturer
<b>OES</b>	Original Equipment Supplier

<b>Term</b>	<b>Definition</b>
<b>Phase 1 Decision</b>	The <b>CMA's</b> decision from the phase 1 investigation.
<b>PL</b>	Private Label
<b>RMS</b>	Relevant Merger Situation
<b>SLC</b>	Substantial Lessening of Competition
<b>The 24 May 2019 Model</b>	<b>UC's</b> financial modelling of the Merger dated 24 May 2019
<b>The Act</b>	The Enterprise Act 2002
<b>The Merged Entity</b>	<b>TVS EDL</b> , including its subsidiary <b>UC</b> , and <b>3G</b> are together referred to as, post-Merger, the Merged Entity.
<b>The Merger</b>	The completed acquisition by <b>TVS EDL</b> of <b>3G</b> .
<b>The Parties</b>	Collectively, <b>TVS EDL</b> , including its subsidiary <b>UC</b> , and <b>3G</b>
<b>SKU</b>	Stock Keeping Unit
<b>SLC</b>	Substantial Lessening of Competition
<b>TVS AEL</b>	TVS Auto Electrics Limited
<b>TVS ASPL</b>	TVS Automobile Solutions Private Limited, the parent company of TVS EDL
<b>TVS EDL</b>	TVS Europe Distribution Limited, the parent company of UC
<b>UC</b>	Universal Components UK Limited
<b>VOR</b>	Vehicles that are off the road.

### **Industry participants mentioned in the Provisional Findings**

<b>Term</b>	<b>Company</b>
<b>3G</b>	3G Truck & Trailer Parts Ltd
<b>AAG</b>	Alliance Automotive Holding Limited



<b>Term</b>	<b>Company</b>
<b>Allspares</b>	Allspares Auto Limited
<b>Amipart</b>	Amipart is a division of Leyland Exports Limited
<b>Aspoeck Systems</b>	Aspöck UK Limited
<b>Autac</b>	Autac Products Ltd
<b>Automint</b>	Automint Limited
<b>Bison</b>	Bison Truck Parts Limited
<b>Borg &amp; Beck</b>	First Line Limited, trading as Borg & Beck
<b>Bosch</b>	Robert Bosch Ltd
<b>Boydell and Jacks</b>	Boydell & Jacks Limited
<b>BPW</b>	BPW Limited
<b>Business Lines</b>	Business Lines Limited, trading as Checkpoint
<b>CPS</b>	CPS Limited
<b>CV Logix</b>	CV Logix, an AAG Company
<b>DAF</b>	Truck manufacturer
<b>Diesel Technic</b>	Diesel Technic UK and Ireland Limited
<b>Dinex</b>	Dinex Exhausts Limited
<b>DSS</b>	Direct Sourcing Solutions Limited
<b>DT Truck</b>	DT Trucks Limited
<b>Durite</b>	Durite Limited
<b>EBS</b>	European Braking Systems Limited
<b>EMS FP&amp;S</b>	EMS FP&S Limited, part of BPW
<b>Febi</b>	Ferdinand Bilstein UK Ltd
<b>Fleet Factors</b>	Fleet Factors Limited

<b>Term</b>	<b>Company</b>
<b>Fleet Parts</b>	Fleet Parts Limited
<b>Fontaine</b>	Fontaine Fifth Wheel
<b>Gardner Parts</b>	Gardner Parts is a division of Leyland Exports Limited
<b>Granning</b>	Granning UK Ltd, Granning Lynx (NI) Limited and ICA Truck. These three companies are collectively referred to as 'Granning'
<b>Group Auto</b>	Group Auto Union UK & Ireland Limited, an AAG Company
<b>Guardian</b>	Guardian Automotive Limited
<b>Haldex</b>	Haldex Europe SAS
<b>Hella</b>	Hella Limited
<b>IFA</b>	Independent Motor Trade Factors Association Limited
<b>Imexpart</b>	Imexpart Limited
<b>Inter Cars</b>	Inter Cars United Kingdom – Automotive Technology Limited, a subsidiary of Inter Cars SA.
<b>Intertruck Benelux</b>	A subsidiary of Unipart
<b>James Hart</b>	James Hart (Chorley) Limited
<b>Jonesco</b>	Jonesco (Preston) Limited
<b>Juratek</b>	Juratek Limited
<b>Linings and Hoses</b>	Linings and Hoses Limited
<b>LKQ</b>	LKQ Corporation
<b>Majorsell</b>	Majorsell Limited
<b>MAN</b>	MAN Truck and Bus UK Limited
<b>Mann and Hummel</b>	MANN+HUMMEL GmbH
<b>MEI Brakes</b>	MEI Brakes Limited

<b>Term</b>	<b>Company</b>
<b>MHT Europe</b>	MHT Europe (a trading division of the Marmon Group Ltd), trading as Fontaine Fifth Wheel.
<b>Nationwide</b>	Nationwide Trailer Parts Limited
<b>Omnipart</b>	Omnipart is a division of Leyland Exports Limited
<b>Peters</b>	PE Automotive GmbH & Co (Peters have recently been renamed PE Automotive), Part of BPW
<b>Picksons</b>	Picksons PLC
<b>Reflexallen</b>	Reflexallen UK Limited
<b>Roadcrew</b>	Roadcrew Solutions, The 'All Makes' parts division of Volvo
<b>Roadlink international</b>	Roadlink International Limited
<b>Rota</b>	RAN Sinai Mamüller Otomotiv Paz. Ltd. Şti, trading as ROTA
<b>Sampa</b>	Sampa UK and Ireland Limited
<b>Scania</b>	Scania (Great Britain) Limited
<b>Scuderia</b>	Scuderia Car Parts Limited
<b>ST Templin</b>	ST Templin UK Limited
<b>TMD Friction</b>	TMD Friction UK Limited
<b>TRP</b>	The 'All Makes' parts division of DAF
<b>Truck-lite</b>	Truck Lite Europe Limited
<b>TTC</b>	Truck and Trailer Components, part of the <b>Unipart</b> Group. TTC ceased trading on 12 June 2020.
<b>Tube Gear</b>	Tube Gear Limited
<b>TVS AEL</b>	TVS Auto Electrics Limited
<b>TVS EDL</b>	TVS Europe Distribution Limited
<b>UAN</b>	United Aftermarket Network Limited, an AAG Company

<b>Term</b>	<b>Company</b>
<b>UC</b>	Universal Components UK Limited
<b>Unipart</b>	Unipart Group Limited
<b>Volvo</b>	Volvo Cars UK Limited
<b>VRS</b>	The 'All Makes' parts division of Scania
<b>Wabco</b>	WABCO Automotive UK Limited
<b>Winnard</b>	Thos. Winnard & Sons Limited
<b>Worldwise</b>	Worldwise Industries Limited
<b>ZF</b>	ZF Friedrichshafen AG