

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

Provisional findings report

Notified: 21 October 2020

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The Competition and Markets Authority has excluded from this published version of the provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [⌂]. Some numbers have been replaced by a range. These are shown in square brackets.

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Glossary

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.

Provisional findings

1. The reference

- 1.1 On 12 June 2020, the Competition and Markets Authority (**CMA**) referred the completed acquisition by TVS Europe Distribution Limited (**TVS EDL**) of 3G Truck & Trailer Parts Ltd (**3G**) (**the Merger**) for an in-depth phase 2 inquiry. In exercise of its duty under [section 22\(1\)](#) of the Enterprise Act 2002 (**the Act**), the CMA made a reference to its chair for the constitution of a group¹ of CMA panel members in order to investigate and report 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 (**SLC**) within any market or markets in the UK for goods or services.
- 1.2 In answering the statutory questions we will apply a 'balance of probabilities' threshold to our analysis. That is, we will decide whether it is more likely than not that an SLC has resulted, or may be expected to result, from the Merger. For the avoidance of doubt, the views expressed in this document are provisional.
- 1.3 Our terms of reference, along with information on the conduct of the inquiry, are in Appendix A.
- 1.4 This document, together with its appendices, constitutes our provisional findings, published and notified to TVS EDL and 3G in line with the CMA's rules of procedure.² Further information, including non-confidential versions of the CMA's decision from the phase 1 investigation (**Phase 1 Decision**) and the response from TVS EDL and 3G³ can be found on the [inquiry case page](#).⁴
- 1.5 Throughout this document, where relevant, TVS EDL, including its subsidiary Universal Components Limited (**UC**), and 3G are collectively referred to as '**the Parties**' and, for statements referring to the Parties post-Merger, '**the Merged Entity**'.

¹ [Section 22\(1\)](#) of the Act provides that the group is to be constituted under Schedule 4 to the Enterprise and Regulatory Reform Act 2013.

² [CMA rules of procedure for merger, market and special reference groups \(CMA 17\)](#), Rule 11.

³ [Parties response to Phase 1 Decision](#), dated 3 July 2020, (Parties response to the Phase 1 Decision).

⁴ The CMA's case page can be found at: <https://www.gov.uk/cma-cases/universal-components-3g-truck-trailer-parts-merger-inquiry>.

2. Background to the industry and the Parties

Introduction

- 2.1 This chapter provides a background to the UK commercial vehicle and trailer parts industry, including its structure and the various types of participants. It then provides an overview of the Parties, including financial information and their operations in the UK.

The industry in which the Parties operate

- 2.2 In the UK, the Parties overlap in the wholesale supply of commercial vehicle and trailer (**CVT**) parts to the aftermarket.⁵ This section describes the different types of replacement parts supplied to the aftermarket, provides an overview of this sector and describes the levels in the supply chain.

Types of replacement parts

- 2.3 Replacement parts can broadly be categorised as follows:
- (a) Original equipment manufacturer (**OEM**) parts;
 - (b) Original equipment supplier (**OES**) parts; and
 - (c) Private label (**PL**) parts.
- 2.4 OEM parts are those used by the commercial vehicle manufacturer when the vehicle is first manufactured, and are made available to OEM distribution networks who supply the manufacturer's franchised/authorised service and repair centres. They are not typically made available to the independent aftermarket. OEM parts are made directly by the vehicle manufacturer or sourced from a parts manufacturer on request of the vehicle manufacturer and typically carry the vehicle manufacturer's name, such as DAF.
- 2.5 OES parts carry the parts manufacturer's name (such as Bosch) and are typically functionally identical to OEM parts. OES parts are usually cheaper and may be packaged differently to OEM parts.
- 2.6 PL parts⁶ are manufactured on behalf of an independent parts wholesaler (eg a wholesale supplier to a motor factor) and usually carry the wholesaler's

⁵ By aftermarket, we mean the market for replacement parts and accessories for a truck after its sale.

⁶ The Parties also supply PL parts purchased from either a recognised brand or other PL (ie non-UC/3G) suppliers that do not supply their parts to OEMs (referred to as '**PL Other**').

brand name, although sometimes they are unbranded. The Parties told us that PL parts are usually 10 to 15% cheaper than OES parts and that this provides a financial incentive to the customer to choose a PL part over an OES part, given the perceived higher quality of OES parts. We received mixed evidence from third parties about the actual quality of OES parts compared with PL parts.⁷

Authorised and independent aftermarkets

- 2.7 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 authorised aftermarket (**AAM**), using OEM parts. Once the warranty⁸ expires, the vehicle operator has the choice of continuing to have the vehicle serviced through the AAM channel (ie the franchised dealers) or having it serviced in the independent aftermarket (this is explained below).
- 2.8 In the experience of the Parties, once a vehicle is over four years old, it is much more likely to be serviced and repaired by an independent service centre (forming part of the independent aftermarket in the UK) using PL parts.
- 2.9 The independent aftermarket (**IAM**) refers to the aftermarket that is outside the truck manufacturers' networks of owned, franchised or authorised service and repair centres.⁹ The IAM is concerned with the manufacturing, distribution, retailing and installation of CVT parts by independent businesses (ie businesses which are independent from commercial vehicle manufacturers, and are not franchise dealers).
- 2.10 In the aftermarket, OES and PL parts are used when garages or workshops (whether independent, or franchisees of a vehicle manufacturer), dealers or fast-fit centres repair and service vehicles.
- 2.11 UC estimated that the value of this aftermarket (ie the IAM and the AAM) in the UK is around £1.2 billion. The Parties told us that they estimated that the volume of sales in the UK aftermarket is split roughly equally between the IAM and the AAM. They also estimated that within the IAM in the UK

⁷ Calls with third parties.

⁸ In addition to the warranty, we were told that truck dealerships sometimes sell new vehicles to customers under a repair and maintenance programme for three, five or seven years that ties in the customer from an aftermarket perspective.

⁹ [Parties response to Phase 1 Decision](#), paragraph 3.9.

approximately £300 million sales is from PL and £300 million is from OES parts.¹⁰

Overview of the aftermarket for CVT parts

2.12 The Parties provided a diagrammatic representation of the CVT parts value chain in the UK, showing the levels of the supply chain between the parts manufacturers and the end users of the parts (the fleet operators and truck owners) (see Figure 2.1).

2.13 The Parties also noted the following:¹¹

- (a) Some manufacturers manufacture PL, OES and OEM parts but simply rebadge or manufacture to different specifications.
- (b) OES parts manufacturers sell through wholesalers, but also direct to motor factors and OEM dealers.
- (c) 'All makes' suppliers (described in Figure 2.1 as All Makes Wholesalers) distribute their 'all makes' parts via their respective dealer networks (see 2.24).
- (d) Independent garages generally buy PL or OES parts from factors but in some cases buy OEM parts from OEM dealers.
- (e) OEM dealer garages generally buy OEM or OES parts, but in some cases buy PL parts from motor factors.
- (f) Specialist range wholesalers also includes both niche (ie those specialised in the supply of a particular product category) and brand-specific wholesalers.

2.14 We recognise that Figure 2.1 is a simplification of a complex market. For example, some of the wholesalers are vertically integrated with motor factors (who then sell on to garages, repair shops and fleets),¹² and some OES Part manufacturers are vertically integrated with wholesalers¹³

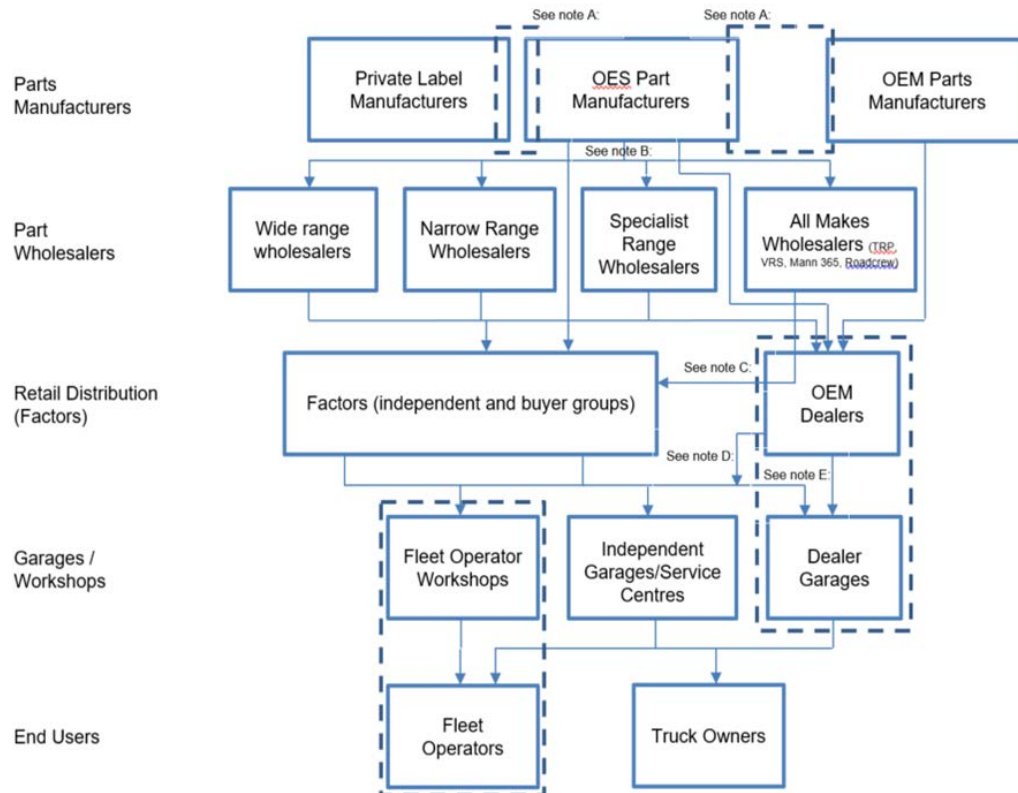
¹⁰ The Parties had previously estimated that the size of the IAM in the UK for PL parts only is over £178 million. This figure relates to PL parts only and excludes imports from wholesalers without a physical presence in the UK.

¹¹ [Parties response to Phase 1 Decision](#), notes to Figure 1.

¹² For example, the AAG group includes CV Logix (a wholesaler) and motor factors (see paragraph 2.30 and footnote).

¹³ For example, the BPW group (a German based vertically integrated CVT parts manufacturer and wholesaler) includes PE Automotive (a wholesaler) and EMS (a motor factor).

Figure 2.1: Overview of the aftermarket for CVT parts



Source: [Parties response to Phase 1 Decision](#), Figure 1.

Note: the notes referred to in the Figure are in paragraph 2.13

Types of suppliers

2.15 There are different types of suppliers of CVT parts in the IAM.

Manufacturers

2.16 Typically, manufacturers supply OES and PL parts to wholesalers, who then sell them on to motor factors (see paragraphs 2.4 to 2.6). The Parties told us that the largest OES manufacturers, including Bosch, Hella, Haldex, Fontaine, Mann & Hummel, ZF and Truck-Lite, all supply OES parts direct to motor factors in the UK,¹⁴ although third parties told us that it was usually only the larger motor factors who purchased directly from manufacturers.

2.17 The Parties told us that in many cases a single CVT replacement part, produced by the same manufacturer, may be supplied in the UK as either a PL, OES or OEM branded product.¹⁵

¹⁴ [Parties response to Phase 1 Decision](#), paragraph 3.1.(ii).

¹⁵ [Parties response to Phase 1 Decision](#), paragraph 3.1.

Wholesalers

- 2.18 Wholesalers are differentiated and, under the characterisation of the industry initially submitted by the Parties in this investigation, can be viewed as being in different categories:
- (a) **Wide range wholesalers:** wholesalers stocking spare parts for a large number of product groups¹⁶ (the Parties and CV Logix¹⁷ fall into this category of wholesaler). They offer a single point of purchase of a wide range of products for customers and typically assign a higher priority to features such as customer service and a lower priority to technical knowledge, instead maintaining a broad but technically limited knowledge of general truck and trailer parts.
 - (b) **Narrow range wholesalers:** wholesalers stocking spare parts for a smaller number of product groups than wide range wholesalers. For their chosen product groups, they typically have a higher degree of technical knowledge and hold a wider range of parts within a particular product group than wide range wholesalers.
 - (c) **Niche/specialist wholesalers:** wholesalers specialising in a single product group or brand. They typically place more emphasis on technical knowledge of their chosen product group or brand and stock a greater variety of products within that particular group.
- 2.19 While the majority of wholesalers are UK-based, some international wholesalers located outside the UK (eg Inter Cars based in Poland) also serve UK-based customers. These suppliers typically have longer delivery times ([🔗]) than UK-based wholesalers.
- 2.20 UK-based wholesalers all offer a nationwide next day delivery service and some offer a same day delivery service, which may be via a courier service provider. Alternatively, orders may be collected by customers from distribution centres.
- 2.21 Some wholesalers offer rebates, which incentivise customers to purchase increased quantities of products from that wholesaler and encourage customer loyalty.

¹⁶ A product group is a set of parts which serve similar purposes within the repair of CVT. Examples of product groups may be general chassis components or braking components.

¹⁷ One of a long-established number of wide range wholesalers of CVT parts in the IAM. Truck and Trailer Components (**TTC**), a division of Unipart Group (**Unipart**), withdrew from the UK in June 2020.

- 2.22 We were told that the wholesaler and customer negotiate the spend for a given year and a rebate which the customer will receive when settling its account at the end of the year. The rebate is usually between 4 to 10% of the spend and can be in tiers depending on spend. The companies that spend the most will therefore receive the best price from the wholesalers.

'All makes' suppliers

- 2.23 Some vehicle manufacturers such as Scania, DAF and Volvo, now have an aftermarket arm of their businesses called an 'all makes' programme. They sell parts via their own 'all makes' wholesalers. For example, in the UK, DAF supplies its 'all makes' parts through its TRP division, Scania through its VRS division, and Volvo through its Roadcrew division. 'All makes' suppliers offer parts for all brands of CVT.
- 2.24 'All makes' parts are not generally made available to independent wholesalers, such as the Parties, or to motor factors (ie the Parties' customers). They are instead supplied by 'all makes' suppliers to dealers who then may sell directly to garages, fleet operators and service centres in the IAM.¹⁸
- 2.25 Although 'all makes' suppliers are wholesalers, in our view they have a different role in the market to the other types of wholesaler described above, as they primarily supply to franchised dealers rather than to motor factors. We therefore refer to them in this report as 'all makes' suppliers rather than wholesalers.

Motor factors

- 2.26 A supplier of IAM parts (including CVT parts) to the independent motor trade¹⁹ is generally known as a motor factor.
- 2.27 Motor factors generally purchase OES and PL CVT parts from wholesalers, which have typically purchased the OES and PL parts from manufacturers (many of which are located overseas). Some motor factors also purchase directly from manufacturers. Lastly, 'all makes' suppliers occasionally supply motor factors through their dealer network. Motor factors then sell these parts

¹⁸ The Parties submitted that motor factors will only use 'all makes' suppliers for distress purchases. One third party also submitted that 'all makes' suppliers predominantly sell to garage workshops but also to motor factors in some instances. One third party told us that 'all makes' suppliers sell to dealers who then may sell in the IAM.

¹⁹ Garages and repair shops which are not part of the truck manufacturers authorised network.

to local garages, fleet operators and local service centres, typically within a 15 to 20-mile radius.

2.28 Motor factors vary in size and are single site or operate multiple sites.²⁰

Buying Groups

2.29 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.

2.30 There are three main motor factor buying groups supplying CVT parts in the IAM in the UK: Group Auto Union UK & Ireland Ltd (**Group Auto**) and United Aftermarket Network Limited (**UAN**), which are both owned by Alliance Automotive UK LV Limited (**AAG**),²¹ and Independent Motor Trade Factors Association Limited (**IFA**). Group Auto has 246 members, UAN has 180 members, and IFA has 28 members.^{22,23,24}

2.31 UC and other suppliers [✂].

2.32 According to the evidence received from third parties, buying groups enter into supply agreements with wholesalers on the basis of tenders or individual negotiations. The duration of the supply agreements with these buying groups is usually one to three years, and at the end of the term the agreements are mostly turned into 12-month rolling contracts.

²⁰ Third party questionnaire responses and calls.

²¹ AAG is a distributor of passenger and commercial vehicle parts to the IAM in Europe and the UK, with revenue of around €2.6 billion. AAG owns a number of motor factors, online retailers and independent distributors who are active in the IAM. In 2017, Genuine Parts Company (a large listed US wholesaler) acquired AAG for \$2 billion from a PE fund managed by Blackstone and AAG's founders. Source: <https://allianceautomotivegroup.eu/>.

²² <https://groupauto.co.uk> (accessed on 28 September 2020).

²³ <https://unitedaftermarket.net> (accessed on 28 September 2020).

²⁴ <https://www.imtfa.co.uk/members> (accessed on 28 September 2020).

The Parties

TVS EDL

Background

2.33 TVS EDL is a private limited company and its principal activity is that of a holding company. TVS EDL is the holding company of UC, TVS Auto Electrics Limited (**TVS AEL**) and Scuderia Car Parts Limited (**Scuderia**).

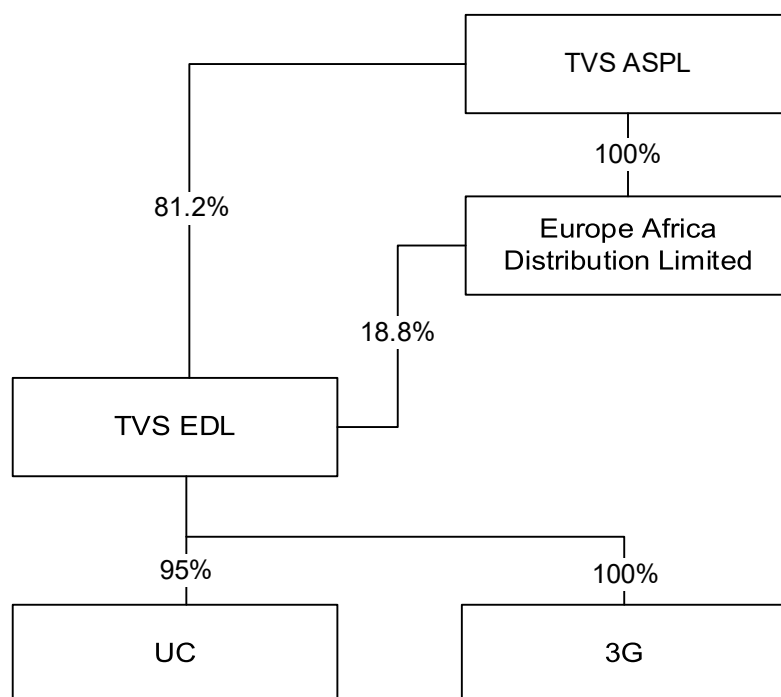
- (a) UC is a private limited company, with TVS EDL owning 95% of the shareholding and its CEO (David Kernahan) owning the remaining 5%. UC is engaged in the wholesale distribution of a wide range of CVT parts (including PL and OES parts) to the IAM. It sells to over thirty countries around the world, including the UK (including Northern Ireland) and countries in Europe, Africa, the Middle East and Asia.
- (b) TVS AEL is 90% owned by TVS EDL. TVS AEL is a wholesale distributor of auto-electrical spare parts for commercial vehicles, including but not limited to emissions control products, starters, alternators, CCTV kits etc, and is active in the UK and the rest of Europe. TVS AEL sells all of its auto-electrical parts through UC.
- (c) Scuderia is 97% owned by TVS EDL. Scuderia is an e-commerce platform selling OEM parts for high performance, luxury and prestige cars directly from manufacturers to consumers. Scuderia also sells a small number of cars overseas. It is primarily active in the USA, shipping to several other countries worldwide.

2.34 UC was created from a CVT parts business, and was acquired in 2004 by David Kernahan and Gary Hadley (former UC Director). TVS group acquired 95% of UC in 2012.²⁵

2.35 Figure 2.2 shows the corporation chart of TVS Automobile Solutions Private Limited (**TVS ASPL**), based in India and the parent company of TVS EDL, and shareholding of TVS ASPL legal entities.

²⁵ https://www.domain-b.com/companies/companies_t/TVS_Motor/20120327_parts_supplier.html.

Figure 2.2: Chart showing ultimate holding company of UC and 3G, post-merger



Source: CMA analysis

Note 1: TVS EDL is the legal entity in the UK, it trades as TVS ASL to align with the Indian parent company name TVS ASPL.

Note 2: The percentages refer to the shareholding of the relevant companies

2.36 UC has been the focus of the Merger inquiry, as its activities overlap with those of 3G. TVS AEL and Scuderia are not considered further in this report.

Financial information

2.37 TVS EDL had worldwide turnover of approximately £45.8 million in the financial year 2018/19, approximately £[REDACTED] million of which was generated in the UK. UC had worldwide turnover of approximately £28.1 million in financial year 2018/19, approximately £[REDACTED] million of which was generated in the UK.²⁶

2.38 UC's financial performance in relation to the worldwide wholesale distribution of CVT parts is shown in Table 2.1.

Table 2.1: UC revenue and cost for worldwide wholesale distribution of CVT parts

	Financial year					£m
	FY16	FY17	FY18	FY19	FY20	4-year CAGR
Sales	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cost of Sales (including adjustments)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gross margin before rebate	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gross margin (%) before rebates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

²⁶ Figures have been rounded to three significant figures.

Discounts/Rebates	[X]	[X]	[X]	[X]	[X]	[X]
Gross margin after rebates	[X]	[X]	[X]	[X]	[X]	[X]
Gross margin%	[X]	[X]	[X]	[X]	[X]	
Operating costs	[X]	[X]	[X]	[X]	[X]	[X]
Operating profit	[X]	[X]	[X]	[X]	[X]	[X]
EBIT margin %	[X]	[X]	[X]	[X]	[X]	
Depreciation/Tax	[X]	[X]	[X]	[X]	[X]	[X]
Profit after tax	[X]	[X]	[X]	[X]	[X]	[X]
Net profit margin %	[X]	[X]	[X]	[X]	[X]	

Source: TVS EDL/UC

Note: UC's financial year runs from April to March.

2.39 As shown in Table 2.1, over the last five years, while UC's total worldwide revenue increased year-on-year (and by a Compound Annual Growth Rate (**CAGR**) of [X]%), UC's gross margin after rebates decreased by [X] percentage points, and net margin decreased by [X] percentage points.

2.40 UC's financial performance in relation to the UK wholesale distribution of CVT parts is shown in Table 2.2.

Table 2.2: UC revenue and margins for the UK wholesale distribution of CVT parts by part type

	Financial year				£m
	FY18	FY19	FY20	2-year CAGR	
Total UK sales	[X]	[X]	[X]	[X]	
Gross margin before rebates (%)	[X]	[X]	[X]		
OES† sales	[X]	[X]	[X]	[X]	
OES gross margin before rebates (%)	[X]	[X]	[X]		
UC PL§ sales	[X]	[X]	[X]	[X]	
PL gross margin before rebates (%)	[X]	[X]	[X]		
PL Other¶ sales	[X]	[X]	[X]	[X]	
PL Other gross margin before rebates (%)	[X]	[X]	[X]		

Source: TVS EDL/UC

Note: TVS EDL provided us financial information only for the last three years.

† OES parts are purchased from a manufacturer that provides parts to the commercial vehicle and trailer manufacturer for inclusion in the initial production of a commercial vehicle/trailer.

§ PL are parts which are branded as UC.

¶ PL Other are parts purchased from either a recognised brand or other private label (ie non-UC) suppliers that do not supply their parts to OEMs for inclusion in the initial production of commercial vehicles/trailers.

2.41 As shown in Table 2.2, UC's total UK revenue increased by a CAGR of [X]% in the last three years. The average revenue from PL parts accounted for over [X]% of UC's UK sales, followed by PL-Other (around [X]%), and OES parts (around [X]%).

2.42 In the last three years, PL parts achieved the highest average gross margin before rebates at around [X]%, followed by PL-Other and OES parts at around [X]%.

Operations of UC

2.43 The headquarters of UC are in Barnsley, with a main distribution centre (165,000 sq ft) that distributes globally. UC also has a smaller distribution centre (less than 20,000 sq ft) in Trafford Park, Manchester.²⁷ UC lists 16,000 line items, of which it keeps stock of 12,000, and has 350 commercial vehicle customers in the UK and 60 in export countries.

2.44 UC sells a wide range of parts for CVT (see Figure 2.3), both OES and PL. PL accounted for 83% (including both UC branded PL and Other PL) of UC's sales by revenue over the last three years.

Figure 2.3: UC Product ranges



Source: TVS EDL presentation, virtual site visit, 16 July 2020

2.45 UC requires a minimum order of £125 for free next day delivery, and [X]% of sales are for next day delivery.

2.46 UC supplies CVT parts to the members of buying groups as well as to independent motor factors.²⁸ During the last three years, sales to buying

²⁷ Currently closed due to Coronavirus (COVID-19).

²⁸ UC is ranked as [X] to Group Auto, UAN and the IFA. 3G [X].

group members on average accounted for around 38% of UC's sales revenue.

3G

Background

2.47 3G is a private limited company, incorporated in 2010, that specialises in the procurement and supply of a wide range of CVT parts (including PL and OES parts) in the IAM throughout the UK, the rest of Europe and other international markets. It was founded by Richard Ash, John Carr and Stewart Ashall (who joined 3G in 2011), who previously had all worked for UC.

Financial information

2.48 3G generated worldwide turnover of approximately £14.4 million in financial year 2018/19, approximately £10.8 million of which was generated in the UK.

2.49 3G's financial performance in relation to the worldwide wholesale distribution of CVT parts is shown in Table 2.3.

Table 2.3: 3G revenue and cost for worldwide wholesale distribution of CVT parts

	Financial Year					£m
	FY15	FY16	FY17	FY18	FY19	4-year CAGR
Sales	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cost of sales (including rebates)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gross margin after rebates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gross margin %	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	
Operating costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Operating profit	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
EBIT margin %	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	
Depreciation/Tax	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Profit after tax	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net profit margin %	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	

Source: 3G

1.: (i) 3G's financial year runs from June to May. (ii) 3G had provided financial information only until financial year 2019.

2. Wages and hire of equipment of equipment are included in operating costs.

2.50 As shown in Table 2.3, over the last five years, 3G's total worldwide revenue increased by a CAGR of [REDACTED]%. 3G's gross margin after rebates increased by [REDACTED] percentage points, and net margin decreased by [REDACTED] percentage points in the last five years.

2.51 3G's financial performance in relation to the UK wholesale distribution of CVT parts is shown in Table 2.4.

Table 2.4: 3G revenue and margins for the UK wholesale distribution of CVT parts by part type

	Financial Year			£m
	FY18	FY19	FY20 (10 months only)	1-year CAGR
Total UK sales	[X]	[X]	[X]	[X]
Gross margin before rebates (%)	[X]	[X]	[X]	
OES †sales	[X]	[X]	[X]	[X]
OES gross margin before rebates (%)	[X]	[X]	[X]	
3G PL § sales	[X]	[X]	[X]	[X]
PL gross margin before rebates (%)	[X]	[X]	[X]	
PL-Other ¶ sales	[X]	[X]	[X]	[X]
PL Other gross margin before rebates (%)	[X]	[X]	[X]	

Source: 3G

1. 3G provided us with financial information only for the last two years, and 10 months for current financial year.

FY20 figures are only for 10 months.

†. OES parts are purchased from a manufacturer that provides parts to the commercial vehicle and trailers manufacturer for inclusion in the initial production of a commercial vehicle/ trailer.

§ PL are parts which are branded as 3G.

¶ PL Other are parts purchased from either a recognised brand or other private label (i.e. non-3G) suppliers that do not supply their parts to OEMs for inclusion in the initial production of commercial vehicles/trailers.

2.52 As shown in Table 2.4, 3G's total UK revenue increased from £[X] million to £[X] million in the last two years and for current 10 months these are around £[X] million. The average revenue from PL parts accounted for around [X]% of 3G's UK sales, followed by OES parts (around [X]%) and PL-Other (around [X]%). PL parts average gross margin before rebates is the highest at around [X]%, followed by PL-Other at around [X]% and OES parts at around [X]% in the last three years.

Operations of 3G

2.53 3G has its head office and 40,000 sq ft distribution facility at Hellaby, Rotherham, and employs 49 staff. It sells both PL and OES parts, with PL accounting for on average 58% of 3G's sales by revenue over the last three years. 3G requires a minimum order of £125 for free delivery, and [X]% of sales are next day delivery.

2.54 3G supplies CVT parts to over 470 active motor factor customers in the UK, and supplies members of buying groups as well as independent motor factors. During the last three years, sales to buying group members on average accounted for around [X]% of 3G's sales revenue. 3G lists around 15,000 Stock Keeping Units (SKUs), of which it holds stock of around [X].

3. The Merger, merger rationale and relevant merger situation

The Merger

- 3.1 On 3 February 2020, TVS EDL acquired the entire issued share capital of 3G for a total consideration of £[REDACTED] million.
- 3.2 TVS EDL told us that [REDACTED], and [REDACTED]. It also told us that the [REDACTED] was in line with TVS EDL's strategic focus on [REDACTED]. Further it told us that [REDACTED], the Merged Entity's product development team would continue to explore and invest in product development in order to: (i) expand the range of products; and (ii) potentially expand into new CVT parts markets outside the UK.
- 3.3 TVS EDL also told us that initially the UC and 3G brands [REDACTED].

Events leading up to the Merger

- 3.4 TVS EDL told us that it moved to its new warehouse in Barnsley in 2016, and also expanded into sectors other than the UK IAM for CVT parts but some of these failed to materialise in terms of growth and profitability.²⁹ Therefore, in 2019 TVS EDL decided to focus on its core business which is the wholesale supply of CVT parts to the IAM in the UK.
- 3.5 TVS EDL told the CMA in phase 1 that over the last few years there had been market consolidation in the UK IAM, where wholesalers such as LKQ, BPW and AAG had acquired companies at the motor factor level in the UK, which had placed increased competitive pressure on the UC business across key product markets. It told the CMA that these companies were at a significant competitive advantage, as the acquired motor factors tended to purchase parts from their own integrated wholesale partners and not from other wholesalers such as the Parties. It also told the CMA that if such vertical integration continued, there was a risk that its business would reduce in scale. In order to 'remain as a viable competitor in the UK to the vertically integrated commercial vehicle parts suppliers', TVS EDL submitted at phase 1 that acquiring 3G was the only credible option available. It told the CMA that an acquisition would [REDACTED].

²⁹ Examples of TVS EDL expansion: Getoffroad.com (e-commerce retailer of 4x4 car parts); TVS EAG (wholesale distributor of passenger vehicle aftermarket parts); TVS EPD (sourcing office to offer sourcing solutions from countries such as China, India, Turkey etc; and Scuderia Car Parts (e-commerce retailer of high-performance car parts). TVS EDL has now disposed/closed Getoffroad.com, TVS EAG and TVS EPD.

3.6 TVS EDL told the CMA that [REDACTED].

3.7 TVS EDL also told the CMA that [REDACTED].

3.8 3G told us that [REDACTED].

Rationale for the Merger

The Parties' submissions

3.9 The Parties submitted that the Merger would allow the Merged Entity:³⁰

- (a) To continue to offer competitively priced parts to its motor factor customers. The Parties told us that the Merger would allow UC to further broaden the range of commercial vehicle parts it stocked and reduce its costs (eg by securing volume-based cost reductions from its suppliers) to compete with the prices offered by the vertically integrated operators (see paragraph 3.5).
- (b) To expand internationally. The Parties told us that 3G already supplied various customers based outside the UK and UC could exploit those relationships to increase the Merged Entity's export activities.
- (c) To achieve synergies. 3G told us that in light of the influx of wholesalers into the UK market, it needed a higher level of investment and the synergies of bringing its business together with UC warehouse would allow it to remain competitive against an 'over-supplied marketplace'.

The Parties' internal documents

TVS EDL and UC

3.10 Our analysis of internal documents provided by TVS EDL and UC shows that there were additional reasons for the Merger beyond those provided by the Parties in their submissions. In particular, in our view, the following internal documents provide evidence of additional reasons of UC's rationale and strategic drivers for the Merger:

- (a) 'Project Alpha Business Case' (dated 12 April 2019);
- (b) 'Project Alpha Strategic Review' (dated 26 April 2019);

³⁰ [Parties response to phase 1 Decision](#), paragraph 2.2 and 2.3.

- (c) 'Revitalisation of UK Strategy' presentation (dated 17 May 2019);
- (d) 'TASL UK & European Strategy' presentation (dated 9 July 2019); and
- (e) 'UC Slides Presented to the Board of Directors' (dated early July 2019).

The April 2019 documents

3.11 The 'Project Alpha Business Case' and 'Project Alpha Strategic Review' were produced by [REDACTED] ([REDACTED] Director) on 12 April 2019 and 26 April 2019 respectively. 'Project Alpha' is the project name for the acquisition of 3G. These documents state that UC's aims for the Merger included:

- (a) strengthening UC's 'dominant' market position in the UK IAM. The 'Project Alpha Business Case' notes that the Merger would increase UC's share of wholesale distribution with revenues of over £[REDACTED] million in the UK IAM from [REDACTED]% to [REDACTED]% and would 'limit customers' choice of supplier'. The 'Project Alpha Strategic Review' notes that the Merger creates an opportunity for market consolidation and that the additional simultaneous acquisition of TTC's stock would 'further strengthen UC's control of the UK IAM' and place the company in a position of 'critical importance' to its customer base. The same document also notes that 'the combination of increased market share [after these acquisitions], along with incremental pricing benefits of the business would reduce the risk of an adverse market reaction whilst further strengthening UC's position as market leader in the UK IAM';
- (b) removing the constraint imposed by 3G. The 'Project Alpha Business Case' estimates that [REDACTED]% of 3G customer accounts also have accounts with UC. It also states that UC's potential for current price increases is 'bound' by 3G's potential cheaper prices. This document goes on to state 'should the acquisition of Alpha occur, the lack of an alternative cheaper product will not be available to the customer, and UC's pricing policy would not be bound in the same way, resulting in margin gain'. The same document notes that the Merger would result in [REDACTED] significant margin gains, as there will not be a 'viable alternative supplier';
- (c) strengthening UC's negotiating position vis-à-vis customers and suppliers. The 'Project Alpha Business Case' states that the Merger would limit customer choice due to 'the lack of availability of the majority of UC parts on a next day service from any other supplier'. This document also states that the Merger would lead to a 'significant reduction of wholesale supply options for UK IAM factor businesses, leading to a short/medium-term

increase in revenue to UC'. The same document also notes that UC would [REDACTED];and

- (d) raising barriers to entry and expansion. The 'Project Alpha Business Case' states that the Merger would result in significant costs for a viable competitor to establish its presence in the UK. The 'Project Alpha Strategic Review' states that the Merger would 'restrict the establishment of alternative supply options for an extended period of time (4 to 5 years)'.

3.12 TVS EDL submitted that the CMA should not place significant weight on the April 2019 documents referred to above:

- (a) In relation to the 'Project Alpha Business Case' the Parties submitted that:

- (i) The document was an exploratory board paper outlining the potential impact of acquiring 3G;

- (ii) [REDACTED] (the author) was relatively new to TVS EDL/UC and had limited knowledge of the market and how it operated;

- (iii) [REDACTED] erroneously focused only on those wholesalers that he believed stocked a comprehensive range of PL spare parts for commercial vehicles and which he believed had revenues of more than £1 million from sales of such parts in the UK;

- (iv) With time and better understanding of the market, it became clear to [REDACTED] that the market for CVT parts in the UK was made up of a much broader range of competing wholesalers; and

- (b) The Parties submitted that [REDACTED] wrongly believed, at the time of preparing the document, that a viable competitor would need a large stockholding of spare parts in order to be able to directly compete with the merged business.

- (c) In relation to the 'Project Alpha Strategic Review' the Parties submitted that: 'This document was prepared by the author ([REDACTED]) at a time when he had not long been with the Universal Components business, and when his knowledge and understanding of the market for spare parts for commercial vehicles and trailers in the UK was relatively limited'.

3.13 In respect of the documents prepared by [REDACTED] in April 2019, as discussed above, TVS EDL also stated that these documents reflected his understanding of the market at the time they were produced and that, whilst in theory any inaccuracies in such board documentation could have been subsequently corrected or revised, any such updating or correction process

did not happen with respect to these documents. TVS EDL stated that ‘the later documents reflect [REDACTED] improved and increased knowledge and understanding of this market’.

3.14 While noting the submissions from the Parties in paragraphs 3.12 and 3.13, we also note the following:

- (a) The explanations provided by the Parties in respect of the two documents dated April 2019 and produced by [REDACTED] do not dispute all of the points referenced in paragraph 3.11 in terms of the rationale for the Merger. They do not undermine the key propositions that the acquisition of 3G would lead to the removal of UC’s key competitor, further strengthening UC’s existing strong position in the UK IAM and reducing price competition and choice for customers.
- (b) [REDACTED] was appointed on [REDACTED] as [REDACTED] Director to [REDACTED]. He was therefore a senior level manager and had been at UC for approximately [REDACTED] at the time of drafting the documents ‘Project Alpha Business Case’ and the ‘Project Alpha Strategic Review’, both of which were considered by the Board of UC.³¹ [REDACTED] would have been expected to have gathered experience of the industry during the [REDACTED] whilst he was working at UC. However, notwithstanding this point, to the extent that he was less experienced than his colleagues, the CMA considers it unlikely that a senior manager would have prepared detailed, factually-based and industry-specific commentary to inform strategic decision making by the Board of Directors without input and involvement from other (more experienced) colleagues. In this respect, we note that the Parties submitted that the ‘UC Slides Presented [REDACTED] were prepared ‘with input from the Commercial Director ([REDACTED], UC) where required,’ who has 22 years industry experience.
- (c) The Parties have also not provided any evidence that the contents of the ‘Project Alpha Business Case’ and the ‘Project Alpha Strategic Review’ were corrected or disputed at any point, including by the Board of Directors following presentation of this material. On the contrary, as discussed below, similar material in terms of the rationale for the Merger as set out in paragraph 3.9 was produced across multiple later documents.

3.15 The Parties submitted the following explanations in response to the CMA’s observations set out in paragraph 3.14, in relation to how TVS ASPL

³¹ The Parties described the ‘Project Alpha Business Case’ (dated 12 April 2019) as an ‘exploratory board paper’ and stated that the ‘Project Alpha Strategic Review’ was a ‘board document’.

perceives board documents and why, in the Parties' view, weight should not be assigned to the evidence contained in them:

- (a) 'The independent aftermarket as a whole is operated on a relatively informal basis and Universal Components has never had reason to explain and set out an analysis of their competitors.'
- (b) 'Universal Components was aware [...] that it did not have a sophisticated view of the market and it took steps to develop its understanding. Since Universal Components invested time and effort to properly consider the competitive landscape, its view of the market has corresponded to that which it holds today and that which it has presented to the CMA'.
- (c) 'After approving the transaction in principle, TVS ASPL did not request or consider the need for any information on the competitive landscape (only being interested in transaction progress and timing). This explains why no board documents that corrected Universal Components' understanding of the market were ever created [...]'
- (d) 'TVS ASPL is a family business and that board discussions including TVS EDL are not particularly formal in nature. Board documents are used by TVS ASPL as a prompt for discussion. There is not a significant emphasis on the contents of documents and documents are not commonly reviewed by the TVS EDL directors in advance of meetings. Furthermore, the attendees would see no need to amend a document referred to in a meeting if it was not intended for external consumption. At the time these documents were prepared and discussed, the board members had no idea that the documents would ever be considered so closely or used as to evidence of their conclusive view of the competitive landscape'.
- (e) 'The board attendees would not think to amend a document that had been referred to during a meeting, on the assumption that it would never need to be referred to again.'
- (f) 'Universal Components does not foresee a large price increase on the parts it offers for sale going forward, since it would lose a considerable volume of sales were it to apply such a price increase.'

The documents from May to July 2019

- 3.16 From May to July 2019, further internal documents were produced that provide further evidence on UC's rationale for the Merger. Contrary to the Parties' submissions, these documents contain similar material to the April 2019 documents and do not depart or detract from the aims set out in those documents. We also note that TVS EDL told us that it had not prepared any

additional strategy documentation related to the acquisition of 3G for the TVS ASPL and TVS EDL Board after July 2019.

- (a) The 'Revitalisation of UK Strategy' presentation (dated 17 May 2019) referred to 'establish market dominance'; distinguished between wholesalers with revenues above and below £[REDACTED] million; referred to the benefits of market consolidation being 'Reduced risk of competitor's entry into the UK market'; referred to viable competition to UC earlier than 4 to 5 years as 'highly unlikely'; and noted that the lack of fragmentation of the UK market would make foreign entry into the UK IAM highly unlikely. This presentation described the acquisition of 3G as placing UC 'in a position of strength within the UK IAM', as it would be 'the largest stockist of [commercial vehicle] aftermarket spare parts in the United Kingdom'. This presentation also noted the opportunity for price rises (resulting in gross margin gains), [REDACTED].
- (b) The 'TASL UK & European Strategy' presentation (dated 9 July 2019) referred to 'wide product-range wholesalers'; described 3G as a 'key competitor' and UC's 'closest competitor'; and stated that the transaction aimed to 'further strengthen the position of TVS ASL in the UK Commercial Independent Aftermarket as market leader [with an] ... enhanced position of strength'. This document also referred to one of TVS ASL's 'Strategic Vision & Actions' as being 'Consolidation of the UK private label market' through the acquisition of 3G. We note that these slides were presented to the TVS ASPL Board [REDACTED] on 17 July 2019.
- (c) The 'UC Slides Presented to the Board of Directors' (dated early July 2019) referred to 'wide product range wholesalers'; and described the Merger's objective as being 'to acquire our closest competitor, 3G [...] and to further strengthen the position of TVS ASL in the UK Commercial Independent Aftermarket as market leader [with an] enhanced position of strength'. This document also noted the 'current lack of strong competition to UC [and 3G] is expected to be time-limited' and stated that 'the acquisition of [3G] would restrict the establishment of alternative supply options for an extended period of time (four to five years)'.³²

3.17 We note the following explanations provided in relation to the TVS EDL's view about the market after discussions with TVS ASPL Board:

- (a) [REDACTED].

³² [REDACTED].

(b) [REDACTED] said that the initial documents are an unfair reflection from where TVS EDL are now, over a year later. For example, the Long Range Plan produced by TVS EDL in [date] [REDACTED] that TVS EDL intends to use to remain competitive in the marketplace. [REDACTED] said that these later documents are a better reflection of where TVS EDL ended up and TVS EDL and UC's position in the market rather than the documents produced in early 2019.

3G

3.18 3G told us that there were no 3G internal documents referring to the Merger decision or negotiations.³³

Our assessment of the weight to be placed on the Parties' internal documents

3.19 We have carefully considered the Parties' submissions as regards the internal documents, but we are not persuaded by them. In our view, it is not credible that the Board of TVS ASPL and TVS EDL would have had no consideration to the content of a series of different (but consistent)³⁴ documents put before them between 12 April 2019 and 9 July 2019 intended to inform their decision-making in relation to the commercial rationale for the acquisition of 3G. Equally, the documentary evidence cannot be dismissed on the Parties' claim that TVS ASPL is a 'family business' that runs its operations on an informal basis: it is in fact, a multi-national entity with a global revenue of £[REDACTED], and the documents in question were both formal and detailed in nature. We also note that TVS EDL [REDACTED].

3.20 We accept that, at the time these internal documents were produced and submitted to the TVS ASPL Board, TVS may not have expected them to be the subject of external scrutiny; but in our view this enhances (rather than diminishes) the evidential value of these documents in terms of assessing TVS EDL's views concerning the Merger rationale.

3.21 The Parties submitted that their view of the competitive landscape of the market has evolved and changed since they received legal advice. However, we consider that the Parties' increased understanding of the merger control process does not undermine the evidential value of internal documentation created prior to the receipt of such advice (and may, by contrast, reduce the evidential value of documentation created after such advice). We note that UC has been active in the market for many years and its views about the

³³ 3G told us that 'as discussions regarding the Transaction were considered to be highly confidential, these were not documented, but the 3G board members had a full and frank discussion'.

³⁴ See paragraphs 3.10 and 3.16.

dynamics of the market, its key competitors and the impact of the Merger, as reflected in the internal documents referenced in paragraphs 3.9 and 3.11, are therefore highly informative. We consider that there is no basis for UC's understanding of the fundamental commercial dynamics of the market to have changed so materially after receiving advice from external legal counsel, as recently as July 2019.

- 3.22 We were also told that [X], and [X]. The evidence shows that it is likely that the Board presentations were prepared with inputs from TVS EDL senior management, who collectively have substantial industry experience on the contents of the documents produced from April 2019 to July 2019. We consider it extremely unlikely that the position presented in these papers did not represent the views of the senior management who had collectively prepared and reviewed the papers.
- 3.23 It was further put to us that [X] 'opinion of the market' evolved from April 2019 to November 2019 because of the discussion with the TVS ASPL Board. We do not agree that [X] opinion about fundamental matters about the operation of the industry would have evolved materially from April 2019 to November 2019: [X] has 16 years industry experience, is [X]. If [X] opinion on such matters had evolved materially, one would have expected that the rationale of the transaction to have been revisited by setting out new documents for the TVS ASPL Board.
- 3.24 In view of the above, we have placed material weight on the Parties' internal documents and consider that the views set out in them are likely to accurately reflect the Parties' rationale for the Merger.

Financial modelling and synergy projections of the Merger

- 3.25 The Parties also provided their financial modelling for the Merger. In support of their submission that there would not be a large increase in the prices post-Merger, the Parties referred to UC's financial modelling from 24 May 2019 (the **24 May 2019 model**). The Parties submitted that, [X], this implied that there would not be a large price rise post-Merger.
- 3.26 We provide details of the Parties' financial and synergy projections for the Merger and our assessment in Appendix B.
- 3.27 In summary, our review of the 24 May 2019 model indicates that it does not reflect changes in the combined revenues forecast of UC and 3G (either increases or decreases), but it does incorporate price increases under gross margins and reduced rebates. Therefore, our view is that the underlying

modelling is not consistent with the Parties' stated position that price rises are not envisaged post-Merger.

Our provisional view on the rationale for the Merger

3.28 Having carefully considered the evidence and the Parties' submissions, our provisional view is that it is appropriate to place material weight on the Parties' contemporaneous internal documents when assessing the rationale for the Merger, and our competitive assessment of the Merger in Chapter 7. These documents state that the Parties' rationale and aims for the Merger included the strengthening of UC's market position and the removal of the constraint posed on UC by 3G, which would enable price rises and reductions in customer rebates and raise barriers to entry and expansion.

Relevant Merger Situation

3.29 This section addresses the first of the two statutory questions which we are required to answer under section 35 of the Act and pursuant to our Terms of Reference, namely: whether a relevant merger situation (**RMS**) has been created.

3.30 The concept of an RMS has two principal elements: two or more enterprises have ceased to be distinct enterprises within the statutory period for reference;³⁵ and the turnover test and/or the share of supply test is satisfied.³⁶

Enterprises ceasing to be distinct

Enterprises

3.31 The Act defines an 'enterprise' as 'the activities or part of the activities of a business'.³⁷ A 'business' is defined as including 'a professional practice and includes any other undertaking which is carried on for gain or reward or which is an undertaking in the course of which goods or services are supplied otherwise than free of charge'.³⁸

3.32 Each of TVS EDL and 3G is active in the wholesale supply of a wide range of CVT parts in the IAM in the UK. TVS EDL had a worldwide turnover of approximately £45.8 million in the financial year 2018/19, approximately £[✂]

³⁵ The Act, [Sections 23](#) and [24](#).

³⁶ The Act, [Sections 23](#).

³⁷ The Act, [Section 129\(1\)](#).

³⁸ The Act, [Section 129\(1\)](#) and [\(3\)](#).

million of which was generated in the UK. 3G had a worldwide turnover of approximately £14.4 million in the financial year 2018/19, approximately £10.8 million of which was generated in the UK.³⁹

- 3.33 We are therefore satisfied that each of TVS EDL and 3G is a ‘business’ within the meaning of the Act and that, accordingly, the activities of each of TVS EDL and 3G are an ‘enterprise’ for the purposes of the Act.

Ceasing to be distinct

- 3.34 The Act provides that two enterprises cease to be distinct if they are brought under common ownership or common control.⁴⁰
- 3.35 The Merger concerns the acquisition by TVS EDL of all of the shares in 3G and therefore full legal control of it. Accordingly, we are satisfied that as a result of the Merger the enterprises of TVS EDL and 3G have ceased to be distinct.

Within the applicable statutory period

- 3.36 The Merger completed on 3 February 2020 and the CMA was informed about it on 6 February 2020. The four-month deadline for a reference decision, under section 24 of the Act, would have expired on 6 June 2020. On 2 June 2020, the CMA decided that the Merger gave rise to a realistic prospect of a substantial lessening of competition and extended the four-month time limit until 9 June 2020 to allow TVS EDL the opportunity to offer undertakings in lieu of a reference (**UILs**).⁴¹ On 8 June 2020, TVS EDL informed the CMA that it would not offer such UILs. Accordingly, pursuant to section 25(5)(b) of the Act, the extension to the four-month time limit would have expired on 22 June 2020. The CMA made the reference for a phase 2 inquiry on 12 June 2020.⁴²
- 3.37 We are therefore satisfied that the enterprises of TVS EDL and 3G ceased to be distinct within the applicable statutory period for reference.

The Turnover and Share of Supply Test

- 3.38 The second element of the RMS test seeks to establish sufficient connection with the UK on a turnover and/or share of supply basis.

³⁹ See paragraphs 2.37 and 2.47.

⁴⁰ The Act, [Section 26](#).

⁴¹ The Act, [Sections 25\(4\)](#) and [73A\(1\)](#).

⁴² The Act, [Sections 22\(1\)](#) and [34ZA\(2\)](#).

The turnover test

- 3.39 The turnover test is met where the value of the turnover in the UK of the enterprise being taken over exceeds £70 million. As the turnover of 3G in the UK in its last financial year prior to the merger agreement was approximately £10.8 million, the turnover test is therefore not met.

The share of supply test

- 3.40 The share of supply test is met where, as a result of enterprises ceasing to be distinct, the following condition prevails or prevails to a greater extent: at least one quarter of goods or services of any description which are supplied in the UK, or in a substantial part of the UK, are supplied either by or to one and the same person.⁴³ The requirement that the condition prevails or prevails to a greater extent means that the merger must result in the creation or increase in a share of supply of goods or services of a particular description and the resulting share must be 25% or more.
- 3.41 The concept of goods or services of ‘any description’ is very broad. The CMA is required by the Act to measure shares of supply by reference to such criterion (whether value, cost, price, quantity, capacity, number of workers employed or some other criterion, of whatever nature), or such combination of criteria, as the CMA considers appropriate.⁴⁴
- 3.42 The share of supply test is a flexible test that gives the CMA discretion to consider forms of supply separately or in combination (whether as a whole or taken in groups) and to consider whether transactions differ materially as to their nature, their parties, their terms or the surrounding circumstances.⁴⁵ In each case the criteria are to be such as the CMA considers appropriate in the circumstances of the case.⁴⁶
- 3.43 The description of goods or services identified for the purposes of the jurisdictional test does not have to correspond with the economic market definition adopted for the purposes of determining the SLC question. The CMA will have regard to any reasonable description of a set of goods or services to determine whether the share of supply test is met. Importantly

⁴³ The Act, [Section 23\(2\), \(3\) and \(4\)](#). The reference to supply ‘by’ or ‘to’ one and the same person catches aggregations with regard to the supply or purchase of goods or services. The test is also met where at least one quarter of the goods or services is supplied by the persons by whom the enterprises concerned are carried on, or are supplied to or for those persons.

⁴⁴ The Act, [Section 23\(5\)](#).

⁴⁵ The Act, [Section 23\(6\) and \(7\)](#).

⁴⁶ The Act, [Section 23\(8\)](#).

however, the parties must together supply or acquire the same category of goods or services.⁴⁷

3.44 We have considered various shares, based on information from different sources, which result in the Parties having a combined share in 2019 of between [30 - 40]% (with an increment of [10 - 20]%) and [60 - 70]% (with an increment of [20 - 30]%) in each case by value of sales in the wide range wholesale supply of CVT parts in the IAM in the UK.⁴⁸

3.45 In view of the above, it is our view that the share of supply test in section 23 of the Act is met, and therefore the second limb of the RMS test is also met.

Provisional conclusion on jurisdiction

3.46 In view of the above, we have provisionally concluded that the Merger has resulted in the creation of an RMS.

4. The counterfactual

Introduction

4.1 The assessment as to whether the creation of an RMS has resulted, or may be expected to result, in an SLC involves a comparison of the prospects for competition with the merger against the competitive situation that would exist in the absence of the merger. This situation, referred to as the 'counterfactual', is the benchmark against which the CMA assesses the competitive effects of a merger.⁴⁹

4.2 As part of its counterfactual assessment in a phase 2 inquiry, the CMA may examine several likely situations, one of which may be the continuation of the pre-merger situation. The CMA will select the most likely of these, based on the facts of the case, as the counterfactual.⁵⁰ It will incorporate into the counterfactual only those aspects of situations that appear likely, based on the facts available to it and the extent of its ability to foresee future developments.⁵¹ The foreseeable period can sometimes be relatively short.⁵² However, even if an event or its consequences are not sufficiently certain to

⁴⁷ [Mergers: Guidance on the CMA's jurisdiction and procedure, January 2014, \(CMA2\)](#), paragraph 4.56.

⁴⁸ See Tables 7.1 and 7.2 for the various market shares.

⁴⁹ [Merger Assessment Guidelines](#), paragraph 4.3.1.

⁵⁰ [Merger Assessment Guidelines](#), paragraph 4.3.6.

⁵¹ [Merger Assessment Guidelines](#), paragraph 4.3.6.

⁵² [Merger Assessment Guidelines](#), paragraph 4.3.2.

include in the counterfactual, they may be considered in the context of the competitive assessment.⁵³

- 4.3 The CMA seeks to avoid importing spurious claims to accurate prediction or foresight in the assessment of the appropriate counterfactual. Given that the counterfactual incorporates only those elements of situations that are foreseeable, it will not in general be necessary to make finely balanced judgements about what is and what is not included in the counterfactual.⁵⁴ Where it considers that the choice between two or more counterfactual situations will make a material difference to the competitive assessment, the CMA will carry out additional detailed investigation before reaching a conclusion on the appropriate counterfactual.⁵⁵
- 4.4 Depending on the evidence, the choice of the counterfactual may be a situation either more or less competitive than the competitive conditions prevailing at the time the merger occurred. Therefore, the selection of the appropriate counterfactual may increase or reduce the prospects of an SLC finding.⁵⁶
- 4.5 The most notable examples of situations in which the CMA may use a counterfactual different from the prevailing conditions of competition are: an exiting firm (through failure or otherwise); the loss of a potential entrant; and where there are competing bids and parallel transactions.⁵⁷

Parties' views on the appropriate counterfactual

- 4.6 The Parties submitted that the appropriate counterfactual should be a continuation of the current conditions of competition, taking into consideration the recent developments involving overseas-based wholesalers opening warehouses in the UK to serve UK-based customers.
- 4.7 The Parties also submitted that the CMA should include the exit of Truck and Trailer Components (**TTC**), a wide range wholesaler of CVT parts, in the counterfactual and should take account of the reasons for TTC's exit in its analysis.⁵⁸ In addition, the Parties submitted that it is possible that a competitor to the Parties would acquire TTC's stock, with that supplier's

⁵³ [Merger Assessment Guidelines](#), paragraph 4.3.2.

⁵⁴ [Merger Assessment Guidelines](#), paragraphs 4.3.2 and 4.3.6.

⁵⁵ [Merger Assessment Guidelines](#), paragraph 4.3.6.

⁵⁶ [Merger Assessment Guidelines](#), paragraph 4.3.4.

⁵⁷ [Merger Assessment Guidelines](#), paragraph 4.3.7.

⁵⁸ We note that the Parties' submission on the counterfactual was made before TTC's exit was confirmed.

competitive position being strengthened accordingly. The Parties stated that they expected multiple companies to be interested in purchasing TTC's stock.

Our assessment of the appropriate counterfactual

- 4.8 In this section we address the Parties' submissions in turn. We have not received any other submissions on whether to adopt a counterfactual different from the competitive conditions prevailing at the time the Merger occurred.

Recent development of entry of non-UK based suppliers

- 4.9 The Parties submitted that the appropriate counterfactual should be a continuation of the current conditions of competition, taking into consideration the recent developments involving overseas-based suppliers operating in the UK. However, in our view, these have occurred independently of the Merger, and so would be included in the competitive conditions prevailing at the time the Merger occurred (the pre-Merger conditions of competition). We have therefore considered the extent of recent entry of non-UK based suppliers in the UK, and how this might have affected or might affect competition, in our competitive assessment. We have also considered future entry and/or expansion of non-UK based suppliers as a countervailing factor in Chapter 8.

Exit of TTC

- 4.10 We received evidence that TTC had exited the UK market. This decision was taken by TTC's owner, Unipart Group Limited (**Unipart**), [REDACTED], and it communicated this decision to its customers and suppliers on 28 May 2020. Unipart also told us that [REDACTED]. TVS EDL told us that it had expressed an intention in purchasing TTC's stock of CVT parts,⁵⁹ but that it had since decided not to purchase the stock.
- 4.11 The sale of TTC's stock did not include the transfer of TTC's brand, [REDACTED].⁶⁰ [REDACTED].
- 4.12 Our provisional view is therefore that since TTC has exited the market it should no longer be considered to be a competitive constraint on the Parties. While some of TTC's stock has been sold to third parties or transferred internally within Unipart, and more of this stock is likely to be sold to third parties in the near future, our views it that the extent of this stock is such that

⁵⁹ Provisional offer was made on 12 February 2020.

⁶⁰ [REDACTED].

its transfer to third parties would not materially change the competitive landscape so as to affect the counterfactual.

Provisional conclusion on the counterfactual

- 4.13 In view of the above, we have therefore provisionally adopted as the appropriate counterfactual the pre-Merger conditions of competition, as they would likely have evolved absent the Merger. We also consider that TTC is no longer a competitive constraint on the Parties due to its exit from the UK market. We have taken this and other relevant market developments into account in the competitive assessment.

5. Customer behaviour

Introduction

- 5.1 In this chapter, we outline the typical behaviour of motor factors in purchasing CVT parts in the IAM.
- 5.2 We first provide an overview of how motor factors choose between suppliers and make purchases. We then examine the reasons why motor factors choose different wholesalers and motor factors' purchasing patterns in more detail.⁶¹ Finally we focus on a particular aspect of purchasing behaviour, that is the role of wholesalers that offer a wide range of parts as a 'one stop shop' for some motor factor purchases.

Overview of how motor factors purchase CVT parts

- 5.3 As set out in Chapter 2, motor factors purchase CVT parts (PL and OES) from wholesalers, and then sell them to local garages, fleet operators and local service centres, typically within a 15 to 20 mile radius. We examine below the reasons why motor factors choose different wholesalers. We consider whether some attributes are typically seen as very important and whether the importance of other attributes varies depending on the nature of the purchase and/or supplier.
- 5.4 Motor factors typically multi-source their purchases of CVT parts across wholesalers, generally including wholesalers such as the Parties who offer a wide range of parts across all or most product categories, and also wholesalers who offer a narrow range or specialise in particular categories.

⁶¹ See 2.15 to 2.28 for descriptions of motor factors and the different types of suppliers of CVT parts to the aftermarket.

Some also purchase directly from OES part manufacturers. We examine below the purchasing patterns of customers. Among other matters, we consider the number of wholesalers used by motor factors and the frequency with which they purchase from different types of wholesalers.

- 5.5 From the evidence on choice of wholesaler and purchasing patterns set out below, we identify that for some of their purchases customers typically value being able to buy a range of parts from a single wholesaler, often described by customers (and wholesalers⁶²) as a using a 'one stop shop'. While these purchases are not straightforward to characterise and quantify, our view is that the evidence on choice of wholesaler and purchasing patterns provides the basis for identifying a need for wholesalers that stock a wide range of CVT parts for some purchases.

Reasons for choosing a wholesaler

- 5.6 This section sets out the evidence provided by customers on their reasons for choosing wholesalers. It looks at their views of the importance of different choice attributes and their comments on the reasons for choosing different suppliers from the third party questionnaires sent to customers,⁶³ and more detailed evidence gathered in our calls with customers.

Choice attributes

- 5.7 We asked customers to rate the importance of different possible choice attributes for suppliers.⁶⁴ Figure 5.1 below shows the proportion of customers who rated the different choice attributes as 'very important' and 'very important and fairly important'. Quality, price and delivery time are the three attributes most frequently rated as 'very important' by customers. Breadth of range was rated as very important by 23 customers out of 38 who answered this question. These ratings do not appear to vary much by customer size.⁶⁵

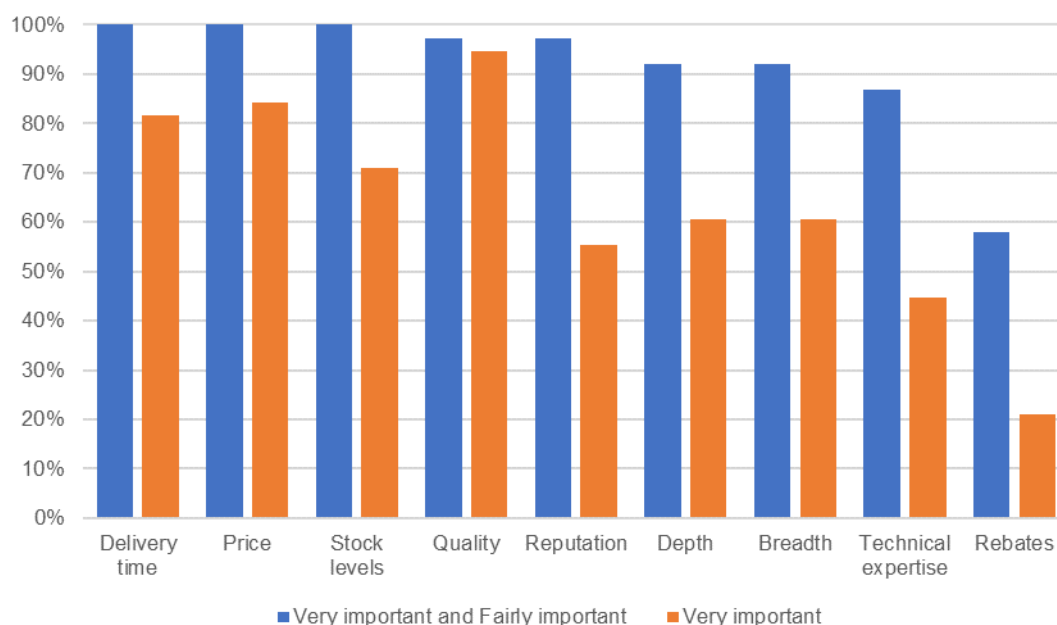
⁶² Comments from wholesalers on this issue are addressed further in paragraph 6.18

⁶³ Further information on the third party questionnaires sent to customers is set out in Appendix C.

⁶⁴ Third party questionnaire to customers: The question was worded as 'How important are the following criteria when you choose which supplier to buy commercial vehicle and trailer parts from?', and the different attributes were labelled as: price, breadth of range of products offered (ie the number of product categories), depth of range of products offered (ie the number of products in each product category), stock levels (ie the number of each SKU typically held by the wholesaler), quality of products offered, technical expertise, delivery time, rebates, and reputation. For each choice attribute, customers also had the option of stating whether this was more relevant for some product categories than others.

⁶⁵ More specifically, these results do not change if we consider only the large customers (26 of the 40 customers who responded to the third party questionnaire); the four most important characteristics of a supplier for these customers are price, quality, stock availability and delivery time.

Figure 5.1: Proportion of customers ranking various supplier criteria as ‘very important’ and ‘very important’ or ‘fairly important’



Source: Responses to third party questionnaire

5.8 In their response to our working papers, the Parties submitted that this evidence shows that the breadth of range offered by suppliers is at best of secondary importance to customers. We disagree with this interpretation of the evidence. First, it is not clear why a characteristic that is rated as fairly or very important by more than 90% of customers should be treated as only of secondary importance. Second, while 14 of the 38 customers who answered this question rated price as more important than breadth, 21 rated price and breadth at the same level and 3 rated breadth as more important than price. Third, this question was asked with respect to customers’ purchases in general so reflects average ratings across products – breadth may be more important for some types of purchases than for others.

Reasons why customers use their main suppliers

5.9 We asked customers to state the reasons why they use the different suppliers listed as their largest 10 suppliers. We did not prompt answers to these questions so that respondents could describe motives in their own terms. To analyse these responses, we categorised reasons by reference to the terms used by respondents (eg ‘quality’, ‘price’, ‘availability’) and counted the number of mentions of each term for each supplier.⁶⁶ Table 5.1 below

⁶⁶ In a small number of cases, we categorized comments provided by customers based on them expressing similar concepts. For example, we recategorized ‘Part of our buying group’ as ‘Buying group deal’, ‘Captive items’ as ‘Customer requirement’, and ‘OE manufacturer of safety critical braking systems’ as both ‘Safety’ and ‘OEM

summarises the results of this analysis for the 10 suppliers who received the largest number of mentions. The percentages in this table refer to the count of terms divided by the number of responses that listed this supplier.

Table 5.1: Reasons given by customers for using different suppliers

Reasons given by customers for using different suppliers	Customers									
	UC	3G	Automint	TTC	Knorr	EBS	CV Logix	Winnards	EXB	Imexpart
Price	47%	50%	27%	22%	11%	33%	67%	38%	0%	33%
Range	17%	13%	27%	11%	11%	22%	22%	25%	17%	0%
Availability	47%	47%	18%	33%	0%	22%	67%	13%	17%	33%
Quality	6%	7%	27%	11%	22%	0%	0%	25%	17%	17%
Service	8%	10%	9%	0%	0%	11%	0%	0%	0%	0%
Delivery	11%	10%	0%	33%	0%	0%	0%	13%	17%	0%
Rebates	3%	7%	0%	0%	0%	0%	0%	0%	0%	0%
Customer requirement	0%	0%	0%	0%	22%	0%	0%	0%	0%	0%
Convenience	6%	7%	0%	0%	0%	0%	0%	0%	0%	0%
Relationship	6%	7%	0%	0%	0%	0%	0%	0%	0%	0%
Safety	0%	0%	0%	0%	11%	0%	0%	0%	0%	0%
OEM products	0%	0%	0%	0%	33%	0%	0%	0%	0%	0%
Buying group deal	6%	3%	9%	0%	22%	11%	22%	13%	0%	0%
Total number of reasons given	56	48	13	10	12	9	16	10	4	5
Total number of mentions	36	30	11	9	9	9	9	8	6	6

Source: Responses to third party questionnaire

5.10 We do not place significant weight on this evidence as some suppliers attracted relatively few mentions in total and the interpretation of some of the terms is unclear.⁶⁷ However, in our view, it is illustrative of the fact that customers choose different suppliers for different reasons. We note that customers tended to mention ‘availability’ as a reason for choosing the Parties and CV Logix more frequently than they did for other suppliers, and that customers tended to mention ‘quality’ less often with respect to the Parties or

products’. There were 11 comments or mentions that were difficult to interpret and that we therefore excluded from this analysis. These were: ‘only 3 in Country’ (3 mentions), ‘on rare occasions we purchase generic products that some PSV applications’ (1 mention), ‘Main air brake supplier’ (1 mention), ‘small basket of goods’ (3 mentions), ‘now closed’ (1 mention), ‘Electrical’ (1 mention), ‘Pad material’ (1 mention).

⁶⁷ For example, it is not clear whether ‘range’ refers to the breadth of range of products offered (ie the number of product categories), or to the depth of range of products offered (ie the number of products in each product category). Likewise, it is not clear whether ‘availability’ refers to the range of products supplied (ie as synonymous with ‘range’), or to the fact that products can be made available readily to customers (eg because they are always held in stock). Our follow up calls with customers showed that all these factors are relevant and applicable to the Parties and some of their competitors (see paragraph 5.30).

CV Logix than for other competitors. This is consistent with other evidence provided to us during the inquiry.

Evidence from our calls with customers

- 5.11 We had detailed follow-up calls with a number of customers and one of the topics explored was the reasons why they use different wholesalers. As noted above, price, quality and delivery speed are key factors.
- 5.12 In relation to price, Fleet Factors explained that price is important to Fleet Factors and it is always monitoring prices. It added that its customers 'force it down this route' by having a focus on prices themselves. Likewise, Allspares told us that the choice of supplier comes down to the price and quality. Picksons told us that in choosing a supplier it would consider a range of factors, such as price, quality of product and terms of delivery.
- 5.13 We were also told that quality is particularly important in relation to safety critical parts. For example, Allspares explained that customers may demand an OES product for braking and steering – these are safety critical products and a quality product is required. Linings and Hoses told us that, for safety critical parts, the quality of parts fitted was important.
- 5.14 On delivery, customers told us that using wholesalers that can provide the products they need quickly allows them to hold less stock which would otherwise be costly. For example, EMS-FP&S explained that, while it would prefer to source from PE Automotive (PE) (as EMS-FP&S and PE are both owned by BPW Ltd and are part of the BPW Aftermarket Group), that supplier has a two-week lead time and a garage is not going to wait that long, so EMS-FP&S would either have to stock the item, which would be a 'big cost', or source it from UC for delivery the next day.
- 5.15 For some purchases, advice and expertise on the part of the wholesaler is valued. Some customers noted the advantages of using narrow-range or niche wholesalers in this regard. For example, [X] said that 'niche wholesalers have more knowledge' and Truck & Trailer Equipment stated that being a specialist in one area is an advantage as the wholesaler can offer the complete range of that product and the expertise to advise on fitments etc. Other respondents highlighted the disadvantage of wide range wholesalers in this regard. EMS-FP&S said that companies that offer a whole range of products often cannot provide the back-up or expertise of companies that specialise in certain areas.
- 5.16 We discussed with customers the reasons why they use the Parties and other wholesalers that stock a wide range of products. Most of the customers we

spoke to explained that, while in theory they could source the parts from a multiplicity of other suppliers, there are a number of cost and convenience factors that would make it less efficient or impractical to do so.

- 5.17 First, by using wholesalers that stock a wide range of parts, customers can group their purchases so as to meet the free delivery threshold and avoid carriage charges. For example, EMS-FP&S explained that if it orders ten products from ten different suppliers, then it has to process ten invoices and possibly incur ten carriage charges whereas it can make one order from UC and incur no carriage charge. Similarly, Fleet Factors explained that while it was possible to source about 80% of the parts bought from UC, 3G or TTC from other suppliers, instead of a single order this would involve purchasing from 20 to 30 different companies. It is likely that many of these individual orders would incur delivery charges (which could be £20 to £40 per order). Fleet Factors further explained that, for some parts, it would not be viable to use suppliers other than UC or 3G as the carriage charges would be more than the cost of the part itself.
- 5.18 Second, customers seek to simplify and improve the efficiency of their purchasing process by avoiding multiple invoices and delivery arrangements with different suppliers. For example, Complete Commercial Components (CCC) said that UC and 3G are essentially ‘one stop shops’. If CCC had to go to individual companies to purchase equivalent parts, a lot of invoices would need to be generated. Picksons noted that, from an administrative point of view, it would be time consuming and a logistical challenge to replace UC and 3G with other suppliers. Administrative costs would also be higher.
- 5.19 Third, concentrating their purchases on a small set of suppliers allows customers to benefit from rebates if they meet the rebate targets.⁶⁸ For example, Linings and Hoses said that UC will offer a target which encourages firms to purchase more from it to try to hit these targets and gain the additional rebate. Allspares told us that suppliers who do not offer rebates tend not to make its main supplier list.
- 5.20 These comments show that customers, in addition to valuing factors such as quality, price and delivery time, see benefits from using wholesalers that have a wide range and allow them to buy a variety of parts in a single basket because this allows them to reduce delivery charges and administrative costs and gain additional rebates.

⁶⁸ See paragraphs 2.21 and 2.22.

- 5.21 The Parties have submitted that this evidence is unreliable because it is qualitative in nature and two of the customers interviewed are affiliated with wholesalers. During the Main Party Hearing, UC submitted that these particular firms might have ‘axes to grind’ if they believed that the Merged Entity would be more competitive.
- 5.22 We disagree with the Parties’ submissions on this evidence for the following reasons:
- (a) First, in merger investigations, the CMA obtains a range of evidence, including qualitative and quantitative evidence, from different sources and then assesses the relative weight of evidence or factors arising from the evidence.⁶⁹ The CMA has a margin of appreciation, or degree of evaluative discretion, in weighing up the totality of the evidence to reach its conclusions.⁷⁰ In the present case, we note that although the statements provided by customers are qualitative in nature, they are consistent with a range of evidence, including quantitative evidence, which we have considered in the round as set out more fully in the competitive assessment chapter. Therefore, we disagree with the Parties’ submission that the qualitative nature of the evidence means that it is unreliable.
 - (b) Second, we have taken account of the fact that some customers are affiliated with wholesalers and hence of the possible incentives for them to respond in a particular way. However, we note that we interviewed customers of the Parties in their capacity as customers, and our questions focused on their purchasing behaviour and preferences as customers (that is, matters in the ordinary course of their business). We weighed up the responses provided with the responses of customers who are not affiliated with wholesalers and have reached our provisional conclusions on the totality of the evidence taken in the round. Moreover, of the two customers affiliated with wholesalers, although one of these customers (EMS-FP&S) expressed concerns about the Merger, the other (Digraph) was supportive of the Merger. This is not consistent with the proposition, implied by the Parties, that these customers were acting tactically to steer the CMA one way or another.

⁶⁹ [Tobii v Competition and Markets Authority](#) [2020] CAT 1 at [354] and [365].

⁷⁰ [Tobii v Competition and Markets Authority](#) [2020] CAT 1 at [302], [365] and [367].

Purchasing patterns of customers

5.23 This section considers the purchasing patterns of the customers, namely motor factors. It looks at evidence from the third party questionnaires sent to customers⁷¹ on how their purchases are spread across suppliers and the frequency with which they purchase from different suppliers.

Sourcing from multiple suppliers

5.24 As noted above, motor factors typically multi-source their purchases of CVT parts across wholesalers, generally including wholesalers such as the Parties who offer a wide range of parts across all or most product categories, and also wholesalers who offer a narrow range or specialise in particular categories. Some motor factors also purchase direct from OES part manufacturers.

5.25 Evidence from responses to our customer questionnaires is consistent with the Parties' customers purchasing from a range of wholesalers. We asked customers to list their 10 most important suppliers and indicate the proportion of purchases made from each supplier. Of the 38 customers who answered this question, 23 listed the maximum number of 10 suppliers, with the suppliers listed accounting for 76% of their total purchases on average.

5.26 The Parties' customers also vary significantly in the extent to which they concentrate their purchases with the Parties. Of the 30 motor factors who provided details of their purchases from the Parties in the last six months in response to our questionnaire:

- (a) One purchased the large majority (over three quarters) of its requirement for CVT parts from the Parties and three purchased around a half;
- (b) A further 12 purchased between 20% and 40% of their requirement from the Parties;
- (c) The remaining 14 purchased less than 20% of their requirement from the Parties.

5.27 Consistent with this, the Parties submitted an analysis of their transaction data showing that a significant proportion of their sales goes to customers who only purchase a small proportion of the product groups from either party.⁷² The Parties submitted, and we agree, that as their customers are motor factors

⁷¹ See Appendix C for more detail about the third party questionnaires sent to customers.

⁷² Appendix E addresses the Parties' submissions on multi-sourcing in more detail.

who must stock and supply the full range of CVT parts, this implies that customers are purchasing many parts from other suppliers.

Frequency of orders from different suppliers

- 5.28 Motor factors have a limited capacity to hold stocks, relative to the tens of thousands of CVT parts available. As a result, they typically make multiple purchases from wholesalers every week.
- 5.29 We asked customers to report the frequency at which they order from different suppliers. Table 5.2 below shows that customers typically place more frequent orders (that is, four or more times a week) with the Parties and CV Logix than they do with the majority of other suppliers.⁷³ These variations in the frequency of purchase across different suppliers are consistent with customers using suppliers for different reasons.

Table 5.2: Frequency of orders from different suppliers

Company	%		
	Less than once a week	1 to 3 times a week	4 or more times a week
Knorr-Bremse	0	13	87
CV Logix	0	14	86
UC	9	13	78
3G	0	22	78
BPW	0	40	60
TTC	17	33	50
Imex	0	50	50
TMD Friction	0	60	40
EBS	22	44	33
Automint	10	60	30
Others	23	48	29
Amipart	0	80	20
Winnards	0	87	12
EXB	20	80	0
Granning	17	83	0

Source: Responses to third party questionnaire.

Notes: 'Others' includes all suppliers that received four or less mentions.

Wide range wholesalers as a 'one stop shop'

- 5.30 In summary, customer evidence shows that customers use different types of suppliers for different reasons. While quality, price and delivery time were the criteria typically seen as most important by customers that responded to our questionnaire, customers see benefits from wholesalers with a wide range, as this allows them to save on carriage charges and transaction costs and

⁷³ The other supplier from whom customers predominantly purchase very frequently is Knorr-Bremse, an OES part manufacturer of braking systems.

concentrate purchases in order to benefit from rebates. Some wholesalers and customers saw wide range wholesalers as being able to provide a convenient 'one stop shop' for buying a range of parts whereas narrow range wholesalers were better placed to provide specialist knowledge and a deeper range of parts within the categories they supply.

- 5.31 Although the term 'one stop shop' has been widely used by both customers and other wholesalers, this term may be unhelpful in the context of this inquiry as it could be interpreted to mean a situation in which customers buy all the products they require from one supplier. However, the situation in this case is more nuanced: it is that some customers value the option of sourcing some of their purchases from those suppliers that can offer a wide range of parts.
- 5.32 The Parties have submitted that because customers are purchasing many parts from other suppliers, this implies that they do not have a preference for 'one stop' shopping. We do not agree with this reasoning. In our view the evidence presented in this chapter shows that customers use different suppliers for different reasons, and that for some purchases customers value the option of a supplier that can offer a broad range of products in a single transaction. This implies that, for such purchases, narrow-range suppliers are not close substitutes, even though they are used commonly by customers for other types of purchases.
- 5.33 At their Main Party Hearing, UC indicated that to the extent that customers had a preference for a 'one stop shop', this would only apply in limited circumstances. In their response to our working papers, the Parties drew a distinction between 'ad hoc' sales, where a 'one stop shop' may be helpful, and 'primary' sales. They defined 'ad hoc sales' as where customers 'add an item onto a pre-existing open order so as to receive that item on a next day basis with no incremental delivery fees'. They stated that 'ad hoc' sales may occur when the relevant part is not common and therefore not generally stocked by the motor factor, or because the stock on the particular part has been depleted and the factor has an urgent need for that part which cannot wait until their normal primary order. They also submitted that such ad hoc sales account for a very small proportion of their overall sales and a very small proportion of any given customer's overall purchases.
- 5.34 We have not seen evidence that 'ad hoc' purchases, as the Parties define them, represent the only purchases for which customers value wholesalers with a wide range and motor factors did not explain their use of such

wholesalers in these terms.⁷⁴ As discussed above,⁷⁵ the reasons for using wholesalers with a wide range of products involve cost and efficiency benefits which extend beyond one-off purchases that are added to an existing basket. While these purchases are not straightforward to characterise and quantify, in our view the evidence examined above provides the basis for distinguishing a separate need for wholesalers that stock a wide range of CVT parts.

6. Market definition

- 6.1 Market definition provides a framework for assessing the competitive effects of a merger.⁷⁶ It is a useful tool, but not an end in itself, and identifying the relevant market involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger in any mechanistic way. The CMA may take into account constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others.⁷⁷ We take these factors into account in our competitive assessment.
- 6.2 In this chapter we consider first the relevant product market. We outline the Parties' views on the relevant market, then consider evidence concerning the extent to which the market should be segmented according to product range. We then consider whether the relevant market should be extended to include supply by OES parts manufacturers to motor factors and 'all makes' suppliers before provisionally concluding on the relevant product market. We then consider the relevant geographic market before provisionally concluding on the relevant market for our assessment of the Merger.

Product market

- 6.3 The Parties overlap in the wholesale supply of CVT parts in the IAM in the UK. The Parties both supply motor factors which, in turn, supply garages, workshops, fleet operators and service centres. Given this overlap, our view is that the appropriate starting point in our analysis to determine the relevant market is the wholesale supply of CVT parts in the IAM in the UK. In this section we consider whether the relevant product market should be segmented on the basis of the product range offered by wholesalers, or should be broadened to include: (i) the supply of parts by OES parts

⁷⁴ In written responses one customer [Alliance] said it had 'preferred supplier routes plus ad hoc' but did not specify further.

⁷⁵ See paragraphs 5.17 to 5.50.

⁷⁶ [Merger Assessment Guidelines](#), paragraph 5.2.1.

⁷⁷ [Merger Assessment Guidelines](#), paragraph 5.2.2.

manufacturers to motor factors; and (ii) the supply of parts by ‘all makes’ suppliers to workshops.

Parties’ views

- 6.4 In their merger notice provided to the CMA in its phase 1 investigation the Parties submitted that the relevant product frame of reference is the wholesale supply of PL and OES parts for commercial vehicle and trailers to the IAM and should include different types of suppliers.⁷⁸ The Parties submitted that most motor factors tend to purchase CVT parts from a range of wholesalers and that a wholesaler does not need to stock the same number of parts as the Parties in order to exert a significant competitive constraint on them.
- 6.5 In their response to the Phase 1 Decision, the Parties submitted that the wholesale supply of CVT parts takes place on a category-by-category basis⁷⁹ and that the Merger should be assessed for each category taking into account (at a minimum) all providers of CVT parts within that category that sell to independent motor factors.⁸⁰
- 6.6 In particular, the Parties submitted that: the conditions of competition vary significantly between categories of CVT parts;⁸¹ customers’ purchasing decisions are made on a category-by-category basis;⁸² and the Parties take into account the prices charged by all significant competitors, including those with a greater focus on particular component categories.⁸³ The Parties further submitted that OES parts manufacturers that supply directly to motor factors are significant competitors,⁸⁴ as there is little difference between OES and PL parts and OES parts manufacturers can supply motor factors on similar terms to those offered by wholesalers.⁸⁵
- 6.7 The Parties also submitted that ‘all makes’ supply is a significant indirect constraint on the Parties because they supply to workshops, garages and repair centres in the IAM (ie the customers of motor factors). If a wholesaler increased its prices then this would result in an increase in motor factors’ prices. This, in turn, would result in motor factors’ downstream customers

⁷⁸ All makes suppliers (or wholesalers) are included in the shares of supply table submitted by the Parties in the Merger Notice.

⁷⁹ [Parties response to Phase 1 Decision](#), paragraph 1.2.

⁸⁰ [Parties response to Phase 1 Decision](#), paragraphs 5.1 to 5.4.

⁸¹ [Parties response to Phase 1 Decision](#), paragraph 4.5.

⁸² [Parties response to Phase 1 Decision](#), paragraph 4.8.

⁸³ [Parties response to Phase 1 Decision](#), paragraph 4.10.

⁸⁴ [Parties response to Phase 1 Decision](#), paragraph 4.10.

⁸⁵ [Parties response to Phase 1 Decision](#), paragraph 3.1.

(garages, workshops and repair centres) instead buying spare parts from ‘all makes’ suppliers.

- 6.8 In addition, the Parties submitted that the AAM is a constraint because when the warranty of a vehicle expires, the vehicle operator has the option of having the vehicle served in the AAM or in the IAM. As the vehicle operator has the option to rely on the AAM, this latter segment constitutes a competitive constraint on any CVT parts wholesaler that does not have access to the AAM.⁸⁶

Segmentation on the basis of product range

- 6.9 This section considers whether it is appropriate to distinguish a separate market for wide range wholesaling of CVT parts or whether all types of wholesalers, irrespective of their range, compete on a product category by product category basis.
- 6.10 In this section, we consider the following:⁸⁷
- (a) Evidence from wholesalers on their characteristics in terms of the range of products distributed.
 - (b) Evidence from different market participants – wholesalers, OES parts manufacturers, ‘all makes’ suppliers and customers – on their views on market segmentation between different types of wholesalers and their definition of a wide range wholesaler.
 - (c) Evidence from UC’s strategy documents, including evidence on how UC thinks about the IAM in the UK and whether it uses terms such as ‘wide range’ wholesaler.
 - (d) Evidence from wholesalers on who their closer competitors are.

Characteristics of wholesalers

- 6.11 We looked at whether the data on products distributed by wholesalers indicated the existence of clear boundaries segmenting them in terms of product range. We asked wholesalers to submit the product fields in which

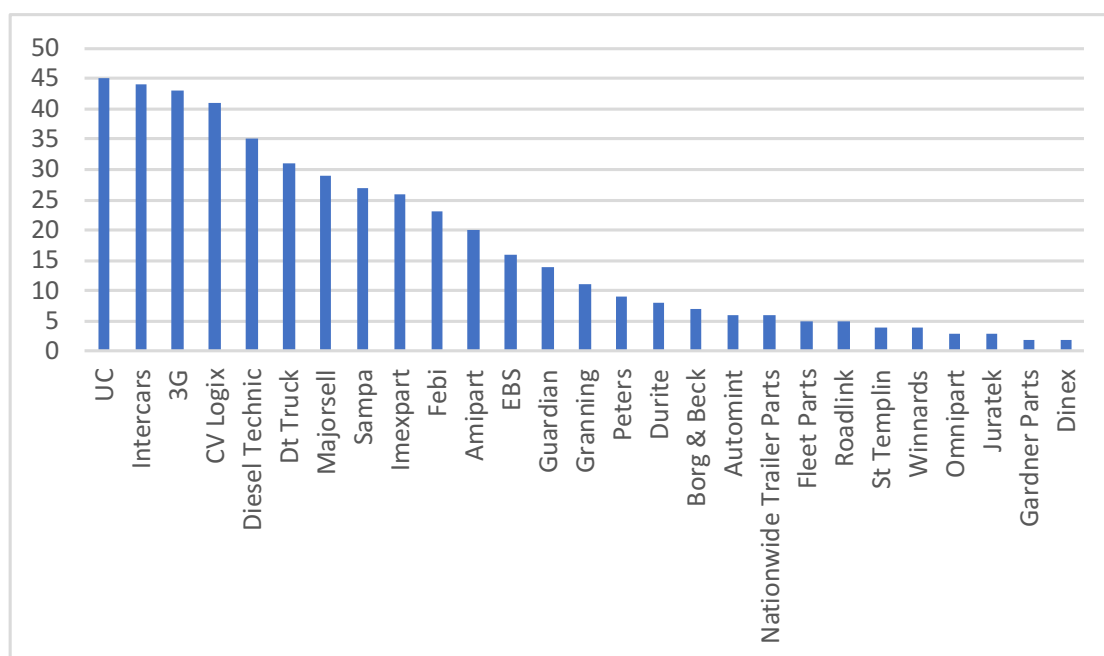
⁸⁶ [Parties response to Phase 1 Decision](#), paragraph 6.7 and 6.8. Submissions at phase 1 with regard to the AAM offer an alternative view. The Parties also submitted that the relevant product frame of reference is the wholesale supply of PL and OES parts for commercial vehicle and trailers to the IAM.

⁸⁷ We provide details on our evidence gathering from customers and competitors in Appendices C and D.

they distributed parts.⁸⁸ We received responses from 25 wholesalers⁸⁹ which are presented in Figure 6.1.

- 6.12 There is a clear heterogeneity across the sample in terms of product range, ranging from wholesalers such as UC, 3G, Inter Cars, CV Logix, Diesel Technic and DT Truck, which supply more than 30 (out of 45) product fields, to more specialist wholesalers like Automint, Roadlink and Dinex, which supply fewer than 10 product fields. There is a spectrum of different sizes of product range, with no clear and significant dividing lines separating wholesalers into different groups. For example, between those with the widest range and the specialist wholesalers, there are several wholesalers that supply between 20 and 30 product fields (such as Majorsell, Sampa, Imexpart, Febi and Amipart) and some that sell between 10 and 20 product fields (such as EBS, Granning and Guardian).

Figure 6.1: Product fields distributed by wholesalers



Source: Responses to third party questionnaires, and Parties response to the Market Questionnaire.

⁸⁸ The list of 45 product fields was supplied by the Parties in response to the Market Questionnaire and is set out in Table D2 in Appendix D.

⁸⁹ Responses to third party questionnaires: Appendix D provides detailed information on how we gathered evidence from competitors.

Views on market segmentation

- 6.13 We asked market participants whether they viewed distinctions between wide, narrow and niche wholesaler as relevant.⁹⁰ We also asked them to provide a definition of what they regarded as being a 'wide range' wholesaler.⁹¹
- 6.14 A majority of wholesalers that responded to our questionnaire found terms such as 'wide', 'narrow' or 'niche' range wholesaler to be relevant and identified a definition of a wide range wholesaler. In most cases, they considered that this type of wholesaler has to supply a complete or wide range of products and in some cases they explicitly linked this concept to that of a 'one stop shop'.
- 6.15 Of the 11 wholesalers who responded to this question, nine⁹² considered the distinction between 'wide' and 'narrow' range wholesalers to be relevant. For example, Automint responded that wide range suppliers supply across all UC's product fields, narrow range supply over a few of them and specialists or niche suppliers may supply in only 1 or 2; Winnard responded that there is a distinction between wide range distributors, such as UC or 3G, who would aim to stock 80% of a wide product range and others, such as Winnard, EBS or Juratek who specialise in specific areas; and Amipart told us that it uses these definitions when considering competitors. Two of these nine wholesalers submitted that they recognised the categorisation, although typically they use a different terminology - EBS said it would use the terms 'generalist' and 'specialist' instead and Borg & Beck described suppliers as 'vertical' (one product group supplied) or 'horizontal' (a range of product groups).
- 6.16 Two wholesalers (CV Logix and Diesel Technic) said that they did not consider the distinctions to be relevant. Diesel Technic said that when looking at its competitors, the range that they offer is not something that it would specifically focus on. However, CV Logix noted that having a wide range was an advantage for wholesalers as it makes it easier for customers to purchase

⁹⁰ Third party questionnaire: The question for suppliers was worded as follows: 'We understand that some market participants make a distinction between wide range, narrow range, specialist or niche and 'all makes' wholesalers of truck and trailer parts – do you consider that these distinctions are relevant? Please describe how you categorise the suppliers of truck and trailer parts in the market in the ordinary course of your business and provide examples of Documents that illustrate your categorization. Please explain how the categorisation that you use compares to the categorisation listed above and describe your positioning within these categories'. The question for customers was worded as follows: "We understand that some market participants make a distinction between wide range, narrow range and niche wholesalers. Do you consider these distinctions to be relevant? If so, provide a definition of these different types of suppliers and explain how you use them?" Note that we were not provided with any documents in response to the questionnaire.

⁹¹ Third party questionnaire: The question for suppliers was worded as follows: 'How would you define a wide range wholesaler? Is there a minimum number of product groups a wholesale supplier has to supply to be considered 'wide range'? Are there any other important features besides the product range? Explain your response'.

⁹² Automint, Dinex, Roadlink, Winnard, Borg & Beck, EBS, Amipart, Sampa and Grannings.

from them (avoiding carriage charges and having to deal with multiple invoices).

- 6.17 We asked wholesalers how they would define 'wide range' wholesalers and 12 wholesalers responded to this question. In most cases, they considered that this type of wholesaler has to supply a complete, 'vast' or wide range of products. For example, Granning said that wide range wholesalers 'try to have all components for truck and trailer available (either as a PL or an OES part) in a short time for delivery'; Sampa responded that a wide range wholesaler is one that covers a vast range of all the essential parts for truck and trailer which realistically 'should be more than 20,000 different articles'; and Dinex submitted that it 'categorises suppliers such as Universal and 3G as offering a wide range of vehicle parts to the market'.
- 6.18 In some cases, wholesalers explicitly linked the concept of a wide range wholesaler to a 'one stop shop'. For example, Automint responded that a 'wide range wholesaler is a "one stop shop" for a motor factor. They can buy almost anything they require from one'; Winnard defined a wide range supplier using a retail analogy as 'a supermarket where you would reasonably expect to be able to buy the majority of day to day parts needed on commercial vehicles'; and Granning said that 'the strategy for these companies is that the customer will not be calling simply for one part, so [they] look to provide the customer with easy access to other parts and be really valuable to the customer.'
- 6.19 Only a minority of OES parts manufacturers (four⁹³ out of 17 respondents who answered this question) considered the distinction between 'wide' and 'narrow' range wholesalers to be relevant. When we asked OES parts manufacturers how they would define 'wide range' wholesalers, seven of the 14 suppliers that responded to this question referred explicitly to product range coverage. For example, Boydell and Jacks told us that 'a wide range wholesaler is a wholesaler offering a one stop shop. A motor factor will approach wide range wholesalers as they supply 90% of the parts that motor factors and their customers want. They will have a wide range, but not much depth in their inventory – they are not specialists.' Rota considered that a 'wide range wholesaler must have the majority of the product groups which are used in commercial vehicles' and keep 'stock of most of them'. BPW considered a wide range wholesaler to be 'a multi brand company with a breadth of product range across the fast moving parts'.

⁹³ Business Lines, Wabco, Tube Gear, and Rota.

- 6.20 Seven respondents did not make references to range and provided definitions based on other features. For example, Fontaine considered a wide range wholesaler to be a distributor with multiple sites across the UK, stock availability and ordering in larger quantities to increase efficiency. Three suppliers thought about this term more in relation to the stock wide range wholesalers would hold of their product. For example, Tube Gear said that a wide range wholesaler ‘would have their own branding and take a wide range of our specialist product groups and reasonable stock quantity of our ranges’.
- 6.21 Roadcrew, the only ‘all makes’ supplier that responded to our phase 2 third party questionnaire,⁹⁴ considered that the above categorisation is ‘relevant, but not something we focus on given our current operation’. Roadcrew did not provide a definition of wide range wholesaler, but told us that smaller motor factors use UC as a one stop shop.
- 6.22 We asked the Parties’ customers (ie the motor factors they supply) whether they make a distinction between wide-range, narrow-range, and niche wholesalers, and whether this distinction is relevant to them. Of the 32 customers who responded to this question, 24 said that they did not recognise these terms or did not consider the distinction to be relevant to them.⁹⁵ Few of these 24 customers provided additional explanations. Picksons considered that suppliers could in theory be categorised loosely into the above categories, but it had no use or reason to do so. It told us that it buys from whatever supplier best suits the needs of its business in terms of quality, price, commercial terms, availability, etc. Bison stated that it uses suppliers based on ‘price, availability, brand and quality’.
- 6.23 The remaining eight respondents recognised this terminology and explained that wide- and narrow-range wholesalers serve different purposes. Some of these respondents emphasised the characteristics and selling points of narrow-range and niche suppliers. For example, [X] said that ‘niche wholesalers have more knowledge’ and Truck & Trailer Equipment stated that being a specialist in one area is an advantage as the wholesaler can offer the complete range of that product and the expertise to advise on fitments etc. Similarly, other respondents highlighted the disadvantage of wide range wholesalers in this regard. EMS–FP&S said that companies that offer a whole range of products often cannot provide the back-up or expertise of companies that specialise in certain areas. Other respondents who recognised this

⁹⁴ Two other ‘all makes’ suppliers (MAN and Scania) did not respond to the third party questionnaire as they considered that they do not compete with the Parties. TRP did not submit a response to the third party questionnaire.

⁹⁵ The difference in responses between large and other customers is not substantial: 16 of 20 large customers (80%) did not think of the wide/narrow/niche split to be relevant, in comparison with 8 of 12 (67%) other customers.

terminology commented on some of the benefits of using wide-range wholesalers. Partservice stated ‘I like to use a one stop-shop to keep carriage costs down’.

- 6.24 While the majority of customers stated that they did not recognise a distinction between wide- and narrow-range suppliers, some of the same customers explained that while, in theory, they could source the parts from a multiplicity of other suppliers, there were a number of cost and convenience factors that would make it less efficient or impractical to do so. These same customers also expressed concerns about the Merger (which are addressed in Chapter 7) on the basis that there were few or no alternatives to the Parties for purchasing a large number of different products together at one time (ie a large ‘basket’ of products).⁹⁶
- 6.25 In summary, while third parties varied in the extent to which they recognised and considered relevant the categorisation of wholesalers into ‘wide range’ and ‘narrow range’ (with these terms not resonating with the majority of customers in particular), many market participants identified that these wholesalers had different strengths. Some wholesalers and customers saw wide range wholesalers as being able to provide a convenient ‘one stop shop’ for buying a range of parts, whereas narrow range wholesalers were better placed to provide specialist knowledge and a deeper range of parts within the product fields they supply.
- 6.26 These views reflect the evidence presented in Chapter 5, which shows that customers use different types of suppliers for different reasons. While quality, price and delivery time were the criteria typically seen as most important by customers that responded to our questionnaire, the majority of customers place considerable importance in wholesalers having a wide range, as this allows them to save on carriage charges and transaction costs and concentrate purchases in order to benefit from rebates.

UC strategy documents

- 6.27 We asked the Parties to provide internal documents where they had set out the rationale for the Merger or assessed or analysed the Merger. UC submitted 18 documents. 3G did not submit any documents.⁹⁷
- 6.28 We have used UC’s strategy documents to explore how UC thinks about the market, whether and how it segments it and how it views constraints from

⁹⁶ See paragraphs 7.91 and 7.92.

⁹⁷ 3G told us that they did not have any documents.

different types of wholesalers.⁹⁸ In general, when UC describes the market it does it as a whole, without segmenting it on a product-by-product basis. For example, when it refers to wholesalers' revenues or market shares, it generally refers to overall revenues or market shares in the UK IAM (Figure 6.2 provides an example).

Figure 6.2: Excerpt from UC's strategy documents on market shares in the UK IAM

[REDACTED]

- 6.29 We have not found any document where UC assesses the market by reference to the 23 product categories which it submitted should be considered as the 'relevant markets' for the analysis of the Merger. There is one document that provides market share data at 'product field' level for the following product fields: [REDACTED].⁹⁹ The market shares provided in the document include wide and narrow range wholesalers, manufacturers and 'all makes' suppliers. There are also two documents where UC discusses product development in a given product category ([REDACTED]) and provides market shares that include manufacturers.
- 6.30 We also note that UC consistently uses the expressions 'wide range wholesalers' and 'niche wholesalers' and provides revenues for each of these categories in some of the documents where it refers to the UK IAM. For example, TASL UK & European Strategy July 2019 includes the graphic in Figure 6.3 below. This shows that these expressions are used in the ordinary course of their business and that UC typically segments wholesalers in the UK IAM in terms of the extent of their range rather than by product category.

Figure 6.3: UC graphic of UK CV Independent Aftermarket

[REDACTED]

- 6.31 In some documents UC names wholesalers that it considers wide range. In some of these documents only a few suppliers are mentioned: for example, [REDACTED] are the only competitors mentioned in the 'Main Competitor Review'.¹⁰⁰ However, in a later document, UC mentions more names, including in addition [REDACTED]. As set out in Table 6.1 below, the wholesalers named as 'wide' in all of these documents supply at least 20 of the product fields that UC supplies.

⁹⁸ See Chapter 3 for more details of the UC strategy documents.

⁹⁹ Parties response to Phase 1 Decision: [REDACTED] is not included as a relevant product market in the Parties response to the Phase 1 Decision.

¹⁰⁰ This review is included in [REDACTED]. It provides a brief assessment of these competitors.

Table 6.1: Wide range wholesalers mentioned in UC's internal documents

[X].

- 6.32 In summary, UC's strategy documents make many references to wide range wholesalers and identify certain wholesalers as being in this category.

Wholesalers' views on their closer competitors

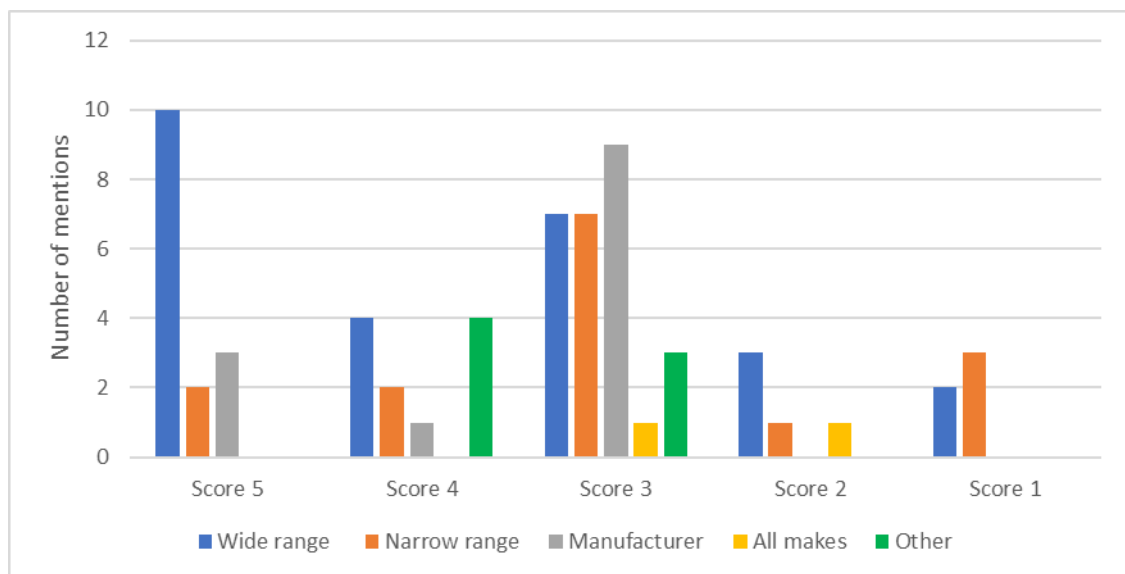
- 6.33 Next we assess evidence from wholesalers on who their closer competitors are. In this section we have distinguished between wide range and other wholesalers in order to compare their views. For the purposes of defining what we mean by a wide range wholesaler we have included all the wholesalers that UC identifies as 'wide range' in any of the strategy documents discussed above and all other wholesalers that supply at least as many product fields as each wholesaler which UC has identified as 'wide range'. This means that we have treated as wide range wholesalers all wholesalers that supply at least 20 product fields.
- 6.34 We asked wholesalers to rate their main competitors from 1 to 5, with a score of 5 for their closest competitors.¹⁰¹ Seven wide range wholesalers responded to this question, mentioning on average nine competitors each. Figure 6.4 provides a distribution of scores across different suppliers' categories. Wide range wholesalers identified competitors in several categories of supplier, including other wide range wholesalers, narrow range wholesalers, and manufacturers. However, they rated other wide range wholesalers as close competitors (scoring 5 or 4) much more frequently than other types of suppliers: 14 out of 26 mentions of competitors rated with 5 or 4 were wide range wholesalers, while four were narrow range wholesalers and four were manufacturers.^{102, 103}

¹⁰¹ Third party questionnaire: The question was worded as follows: 'Rate your main competitors (on a scale of 1 to 5) based on how close the competitor is to you (with 1 being not close at all and 5 being very close) and explain the reasons why you consider them to be your main competitors'.

¹⁰² 'Manufacturer' refers to OES parts manufacturers or other type of independent manufacturers.

¹⁰³ There were four mentions of 'other' as close competitors (with a score of 4). These were four motor factors mentioned by Imexpart (Digraph, Dingbro, HGV Direct and Omnipart).

Figure 6.4: Wide range wholesalers' rating of competitors*



Source: Responses to third party questionnaires

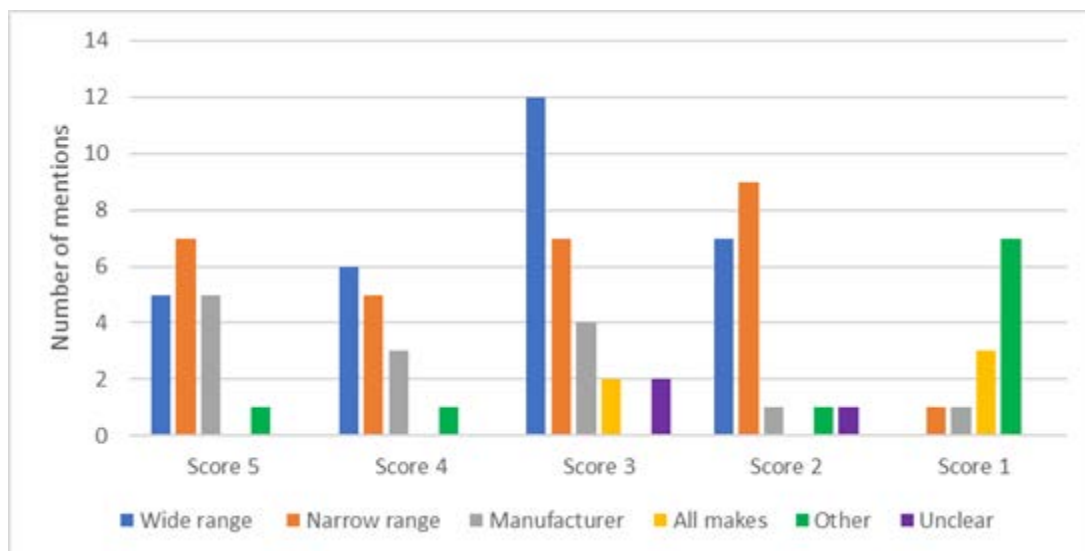
*Mentions of each type of supplier in competitors scoring (5 to 1). 5 indicates very close competitor; 'Other' includes seven motor factors, all mentioned by Imexpart.

6.35 Of the seven wide range wholesalers that responded, three rated UC as a closest competitor (5) and one as a close competitor (4), while the remaining three gave UC a lower score or did not mention it. Only one rated 3G as a closest competitor (5), while four others rated it as 3 or lower, and two did not mention 3G.

6.36 Thirteen narrow range wholesalers responded to this question, mentioning on average seven competitors each (Figure 6.5). Narrow range wholesalers¹⁰⁴ rated both wide range wholesalers and narrow range wholesalers as close competitors and, to a lesser extent, some saw manufacturers as close competitors. Among the competitors with a score of 5 and 4, 11 out of 33 mentions were wide range wholesalers, followed by narrow range wholesalers (12 out of 33 mentions) and manufacturers (eight out of 33 mentions). Three mentioned both UC and 3G as close competitors (5 or 4), and three mentioned either UC or 3G as a close competitor.

¹⁰⁴ Narrow here includes both narrow and niche wholesalers.

Figure 6.5: Narrow range wholesalers' rating of competitors*



Source: Responses to third party questionnaires.

*Mentions of each type of supplier in competitors scoring (5 to 1). 5 indicates very close competitor. 'Other' includes the following other suppliers: with score 5 - OE dealerships; with score 4 – Ring Automotive; with score 2 Ring Automotive, with score 1 (all mentioned by Automint) - two bus parts suppliers Davy Engineering and Partline, and the following suppliers: Mercedes, Iveco, Renault Kogel, Schmitz. 'Unclear' includes the following suppliers (product range supplied is unclear): All-Ind (3), VTP (3), Fleet Services (Lawrence) (2).

6.37 In summary, the evidence set out above shows that wide range wholesalers see other wide range wholesalers as a more significant competitive constraint than other types of wholesalers or suppliers. Narrow range wholesalers see both wide range and narrow range wholesalers as close competitors, and some also see manufacturers as competitors.

Provisional conclusion on segmentation on the basis of range of parts stocked

6.38 Taken in the round, we consider that the evidence above supports defining a separate market for the wide range wholesale supply of CVT parts within the IAM.

6.39 Whilst a terminological distinction between 'wide range' and 'narrow range' wholesalers was not universally recognised in the market, most market participants indicated that different types of wholesalers had different strengths. In particular, some wholesalers and customers saw wide range wholesalers as being able to provide a convenient 'one stop shop' for buying a range of parts and considered that narrow range wholesalers were better placed to provide specialist knowledge and a deeper range of parts within the categories they supply. In our view, assessing competition separately within each product category, as the Parties have suggested, would not capture the importance of benefits that wide range customers offer to customers. Moreover, UC strategy documents do not generally look at the market on a product by product basis and the evidence we assess in the competitive

assessment is also consistent with a separate market for 'wide range' wholesalers.

- 6.40 We recognise that there is a spectrum of wholesalers and there is not a clear-cut distinction between those that are wide range and those that are narrow range. For the purposes of defining what we mean by a 'wide range wholesaler' we have included all the wholesalers that UC identifies as 'wide range' in any strategy document and all other wholesalers that supply at least as many product fields. This means that we have treated as wide range all wholesalers that supply at least 20 product fields. We have treated all other wholesalers, including 'specialist' or 'niche' wholesalers, as narrow range wholesalers.
- 6.41 We also recognise that there is a degree of competitive interaction between wide range wholesalers and narrow range wholesalers. While we consider that the differentiation between them is such that it is appropriate to define a market for the wide range wholesale supply of CVT parts, narrow range wholesalers are an out-of-market constraint which we take into account in our competitive assessment.

Supply by OES parts manufacturers

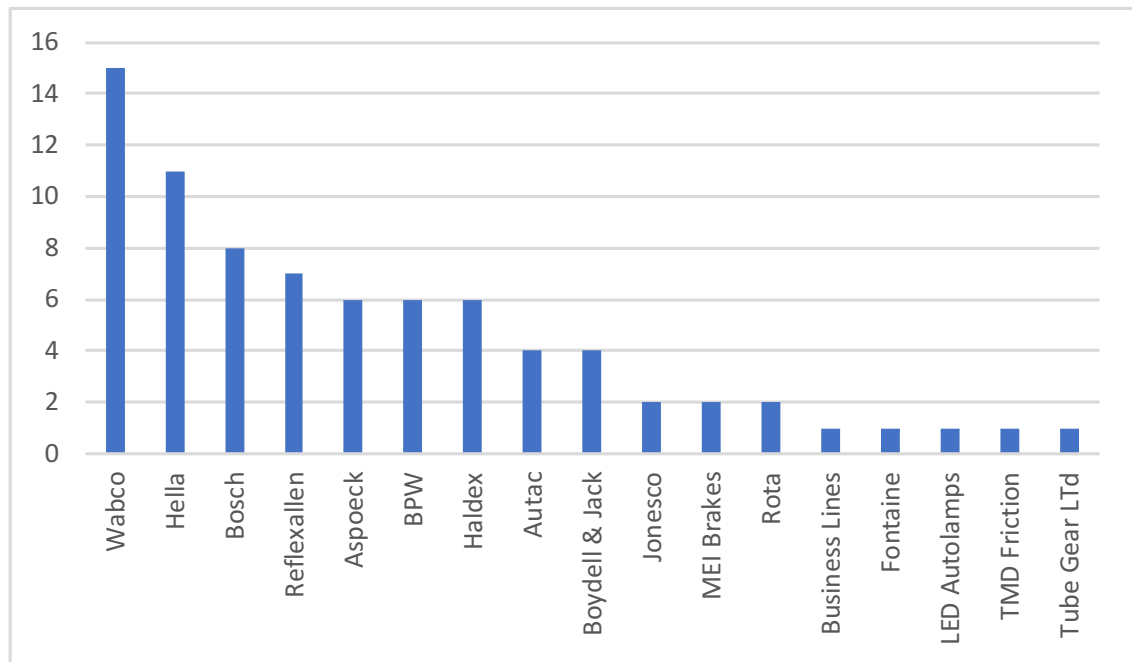
- 6.42 This section considers whether the relevant product market should be extended to include the supply of parts by OES parts manufacturers to motor factors.
- 6.43 In this section, we consider the following:
- (a) Evidence on the characteristics of OES parts manufacturers;
 - (b) Evidence on the reasons for using OES parts manufacturers;
 - (c) Evidence from UC strategy documents; and
 - (d) Evidence from OES parts manufacturers on who their closer competitors are.

Characteristics of OES parts manufacturers

- 6.44 In this section we assess the characteristics of OES parts manufacturers. First, we assess the range of products they cover. Second, we describe their main routes to market in the UK IAM and their customer mix. Third, we explore the relevance of next day delivery orders in their sales and the conditions under which they offer free next day delivery.

6.45 OES parts manufacturers¹⁰⁵ tend to have a narrow range focusing on a small set of products. Approximately half of the OES parts manufacturers who responded to our third party questionnaire sell one or two product fields (Figure 6.6). None of the OES parts manufacturers sell 20 or more product fields (ie enough to be included in our definition of a wide range wholesaler) and only two of the 17 respondents sell more than 10 product fields.

Figure 6.6: Product fields distributed by OES parts manufacturers



Source: Responses to third party questionnaires.

6.46 OES parts manufacturers often have two routes to the UK IAM, ie via wholesale distributors and selling directly to motor factors. The extent to which they sell directly to motor factors varies significantly (see Figure 6.7 below). For example, Fontaine and Jonesco generate approximately [%] and [%] respectively of their revenues through wholesalers whereas Hella, Bosch, and Boydell and Jack generate significantly more revenues through sales to motor factors.

Figure 6.7: OES parts manufacturers' sales corresponding to motor factors as % of their total sales. 2019

[✂]

6.47 Those OES parts manufacturers that do supply directly to motor factors tend to focus on large motor factors. Jonesco (an OES parts manufacturer) explained that its preferred business model for all products it manufactures is

¹⁰⁵ OES parts manufacturers focus on producing OES parts but they also produce OEM parts for original vehicle manufacturers in the AAM.

distribution via wholesalers, as larger customers purchase ‘trailer loads’ on a regular basis, as opposed to smaller independent businesses which order smaller quantities less regularly. Jonesco told us that it has tried to move away from selling to smaller businesses by using higher order value thresholds. Similarly Unipart (which was the owner of TTC) said that manufacturers want volume orders and not to deal with smaller customers and Roadcrew (an ‘all makes’ supplier) told us that some manufacturers, such as Knorr-Bremse, would not sell to small motor factors and instead would ask them to use an agent in their area.

- 6.48 We looked at whether OES parts manufacturers offered next day delivery, the share of their sales (by revenue) which they deliver next day and the conditions under which they offer this service. Most (13 out of 17) of the OES parts manufacturers that responded to our questionnaire offer next day delivery.¹⁰⁶ In the four other cases, next day delivery is restricted and not the standard service offered to customers (Jonesco and Aspoeck) or it is not provided at all (Rota, Haldex).¹⁰⁷ The proportion of OES parts manufacturers’ sales which have next day delivery varies substantially (see Figure 6.8 below). In some cases, such as [X], Wabco, Jonesco or MEI Brakes, next day deliveries represent [X]% or less of their sales. In contrast, Boydell and Jacks, BPW, Business Lines and TMD Friction have shares [X]% or higher.

Figure 6.8: OES manufacturers’ sales parts corresponding to next day delivery

[X]

- 6.49 OES parts manufacturers differ in the conditions on which they offer free next day delivery (Figure 6.8). Three out of 12 OES parts manufacturers who provided information on this do not provide free next day delivery. Eight of the respondents do provide this service, although the order values to qualify for free next day delivery vary from £100 to £750. The remaining respondent provides free delivery for orders over a certain limit (£300) but did not specify whether deliveries are made the next day or take longer.

Table 6.2: OES parts manufacturers’ conditions for free next day delivery

Supplier (type)	Conditions for free next day delivery
Bosch	No free next day delivery. Overnight Vehicle Off Road (VOR) service is chargeable at £7.50 per consignment.
Fontaine	Free next day delivery for higher value orders. Carriage prices agreed on order.
Jonesco	No free next day delivery.
MEI Brakes	Free next day delivery on orders over £100

¹⁰⁶ OES parts manufacturers responses to third party questionnaire.

¹⁰⁷ Hella stated that it offers next day delivery, but it did not provide the conditions clearly.

[✂]	[✂]
TMD Friction	Free next day delivery on orders over £100
Tube Gear	Free next day delivery on orders over £150
Autac	Free next day delivery on orders over £300.
Aspoeck	No free next day delivery. VOR service is £25.
Hella	Free delivery for orders over £125 – did not specify whether deliveries are made the next day or take longer.
Wabco	Free next day delivery on orders over £100
BPW	Free next day delivery on orders over £350

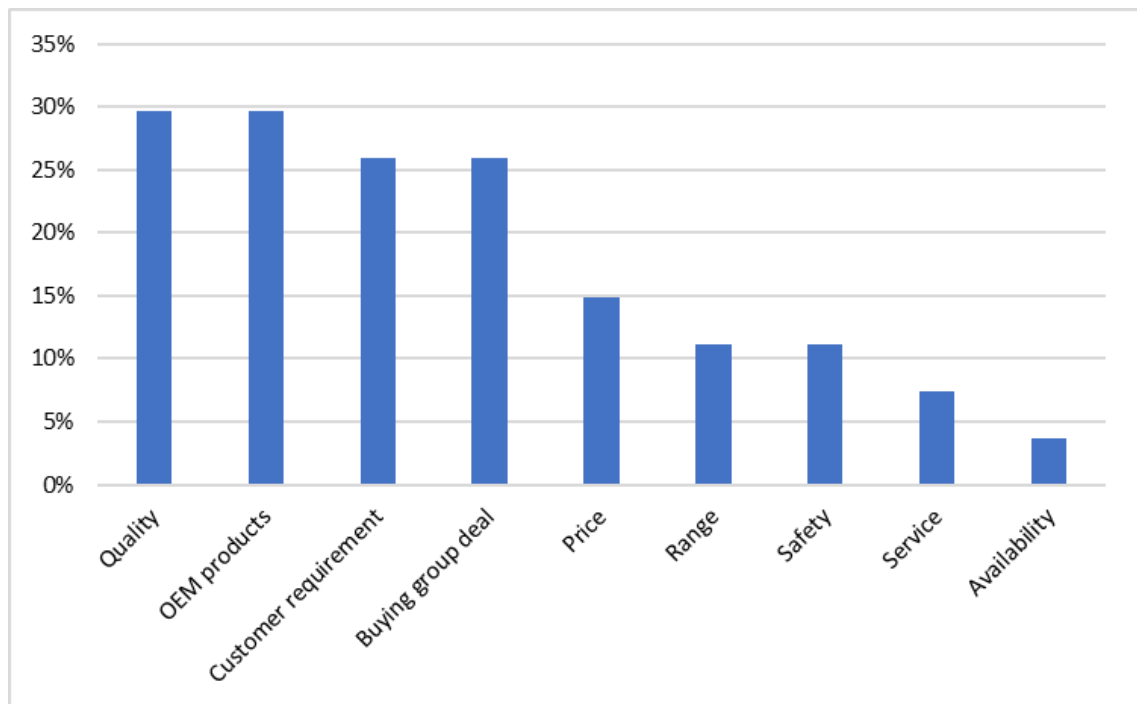
Source: Responses to third party questionnaire.

Reasons for using OES parts manufacturers

6.50 In this section, we consider evidence from customers and competitors on the reasons why customers use OES parts manufacturers.

6.51 We considered the reasons customers gave for using their most important suppliers, focusing on the five OES parts manufacturers with the highest number of mentions. Figure 6.9 presents the results. As discussed in paragraph 5.10 we do not place significant weight on this evidence. We note however that the results for quality and availability contrast with those for wide range wholesalers. Quality (30%) is one of the reasons most frequently mentioned by customers for choosing an OES parts manufacturer (together with ‘OEM products’) whereas availability (4%) is the reason which is the least frequently mentioned by customers. In contrast availability was mentioned by more than 40% of customers for UC and 3G and 67% for CV Logix. This difference is consistent with the other evidence we have gathered, as discussed below.

Figure 6.9: Reasons given by customers for using OES parts manufacturers



Source: Responses to CMA third party questionnaire; CMA analysis aggregating evidence from the five OES parts manufacturers with the highest number of mentions; total number of reasons given (43), total number of mentions (27).

- 6.52 Follow-up calls with UC's and 3G's customers also provided evidence on why customers may rely on OES parts manufacturers for their purchases. They told us that customers may approach OES parts manufacturers for specialist parts, or where the part has a safety critical element or quality is particularly relevant for the customer. For example, Picksons told us that air braking parts are safety critical and most customers insist on or expect genuine OE parts. Linings and Hoses told us that it will not buy BPW brake drums from UC but will go directly to BPW.
- 6.53 The differences in reasons why customers purchase from OES parts manufacturers appear to result in customers purchasing less frequently from OES parts manufacturers than from suppliers such as UC and 3G. For example, Picksons told us that it orders from UC on a daily basis whereas it orders from specialist suppliers on a less frequent basis (it could be 3 or 4 times a week or once a month). Allspares told us that orders from OES parts manufacturers such as Wabco and Knorr-Bremse are made every two or three days, whereas orders from UC and 3G are made every day. GAU/UAN considered that, generally, motor factors rely on wide range suppliers such as UC and 3G for daily purchases, whereas they rely on manufacturers for less frequent stock orders.
- 6.54 Some suppliers also indicated on calls that there are differences in how customers use OES parts manufacturers and wide range wholesalers.

Customers tend to use wide range wholesalers for next day purchases and to purchase a range of parts, avoiding carriage charges, and tend to purchase from manufacturers for large stock orders. For example, Boydell and Jacks told us that if the customer relied on a manufacturer for the sort of purchases it makes from UC and 3G this would take more time and would be more expensive due to carriage charges and that motor factors will use a manufacturer like Boydell and Jacks every month to restock products. Jonesco told us that its business model is to 'ship out' large orders, rather than provide a next day service.

UC strategy documents

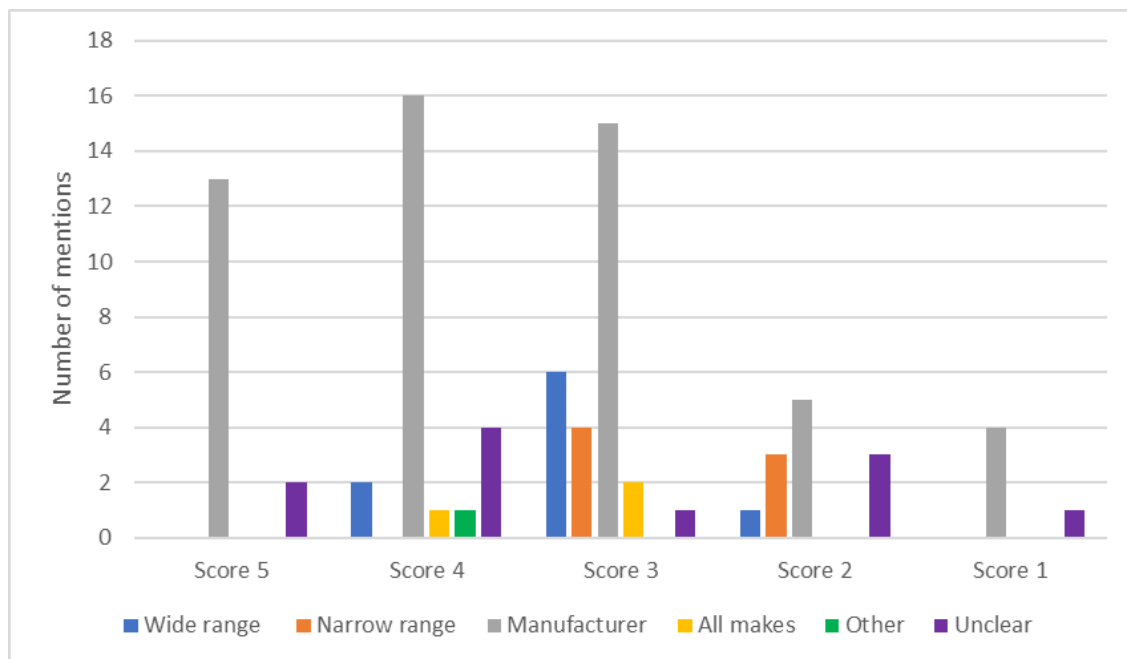
- 6.55 Our assessment of UC's strategy documents shows that OES parts manufacturers are much less frequently mentioned than wide range wholesalers. UC did not include OES parts manufacturers in its 'Main Competitor Review'¹⁰⁸ - this only refers to 3G and other wide range wholesalers. We did, however, identify two documents that assess product development in air braking, which include mentions of OES parts manufacturers as competitors.
- 6.56 OES parts manufacturers are also less frequently mentioned in other types of internal documents (price negotiation emails, price benchmarking documents, sales meeting presentations, overstrikes reports, etc) that we assess in Chapter 7.

OES parts manufacturers' views on their closer competitors

- 6.57 In this section, we assess evidence from OES parts manufacturers on who their closer competitors are.
- 6.58 OES parts manufacturers rated other manufacturers as close competitors (score of 5 or 4) much more frequently than other types of suppliers, as shown in Figure 6.10. OES parts manufacturers do not see wide range wholesalers as a close competitor. Only three out of 17 suppliers who responded to this question rated UC and 3G as either a 4 or a 3.

¹⁰⁸ Project Alpha Business Case (April 2019) contains a 'Main Competitor Review' where UC only includes as competitors [X]. The review includes a brief assessment of these competitors.

Figure 6.10: OES parts manufacturers' rating of competitors*



Source: Responses to third party questionnaires.

* Mentions of each type of supplier in competitors scoring (5 to 1). 5 indicates very close competitor. We have not been able to verify the type of some suppliers, which are included in the category 'unclear'. 'Other' suppliers is a single mention of 'Chinese imports'.

Provisional conclusion on OES parts manufacturers

- 6.59 On the basis of the evidence above, we have provisionally concluded that OES parts manufacturers should not be included within the relevant product market. OES parts manufacturers have a different business model from wide range wholesalers, in particular being less focused on supplying to motor factors or providing next-day delivery, and typically have a limited range, with most of them supplying only one or two product fields. Motor factors tend to use OES parts manufacturers for specialist products and in cases where the product is safety critical or where quality is particularly important. They also tend to purchase from OES parts manufacturers less frequently than they do from wide range wholesalers, and purchases are often for large stock orders for which speed is less important rather than smaller orders that are needed the next day. Wide range wholesalers do not see OES parts manufacturers as close competitors and OES parts manufacturers see other manufacturers as their closer competitors.
- 6.60 We recognise that there is a degree of competitive interaction between wide range wholesalers and OES parts manufacturers. While we consider that the differentiation between them is such that they do not fall within the same product market, OES parts manufacturers are an out-of-market constraint which we take into account in our competitive assessment.

Supply by ‘all makes’ suppliers

- 6.61 This section considers whether the relevant product market should be extended to include the supply of parts by ‘all makes’ suppliers.
- 6.62 As discussed in Chapter 2, historically the AAM operated separately from the IAM, with manufacturers servicing and repairing their own brand vehicles. However, some vehicle manufacturers such as Scania, DAF and Volvo now have an aftermarket arm of their businesses called an ‘All makes’ programme.
- 6.63 ‘All makes’ parts are not generally made available to independent wholesalers, such as the Parties, or to motor factors (ie the Parties’ customers). They are instead supplied by ‘all makes’ suppliers to dealers who then may sell directly to garages, fleet operators and service centres in the IAM.
- 6.64 The Parties submitted that ‘all makes’ suppliers constitute an indirect constraint on wholesalers in the IAM because they supply to workshops, garages and repair centres in the IAM, in competition against the motor factors who are the immediate customers of wholesalers in the IAM. The Parties submitted that if a wholesaler in the IAM, such as one of the Parties, increased its prices to motor factors then this would result in an increase in motor factors’ own prices. This, in turn, would result in motor factors’ downstream customers (garages, workshops and repair centres) instead buying spare parts from ‘all makes’ suppliers, resulting in lost sales to the IAM wholesaler.
- 6.65 The CMA Merger Assessment Guidelines state that we may consider widening the relevant product market to include products that are not directly substitutable because of indirect competition.¹⁰⁹ We have therefore considered whether ‘all makes’ suppliers are a sufficient competitive constraint on the Parties to be included in the relevant market.
- 6.66 In this section, we consider the following evidence:
- (a) Characteristics of ‘all makes’ suppliers.
 - (b) Evidence from UC strategy documents.
 - (c) Views of competition between wholesalers and ‘all makes’ suppliers.

¹⁰⁹ [Merger Assessment Guidelines](#), paragraph 5.2.20, first bullet point.

Characteristics of 'all makes' suppliers

- 6.67 We received one response to our third party questionnaire from an 'all makes' supplier, Roadcrew.
- 6.68 Roadcrew's range is comparable to that of the Parties, as it supplies 45 product fields. Most of its sales (90%) are next day delivery. However, there are differences in terms of depth of range and branding between Roadcrew and the Parties. Roadcrew told us that UC's range is far greater than Roadcrew's, which has around 6,000 SKUs,¹¹⁰ and Roadcrew's product range also targets fewer truck brands than UC's range caters for. Roadcrew is also specialized in the wholesale of OES parts, with PL only a minimal part of its sales.

UC strategy documents

- 6.69 UC's 'Main Competitor Review' does not refer to 'all makes' suppliers. We have identified only a single reference to 'all makes' suppliers in one of its strategy documents.
- 6.70 'All makes' suppliers are also less frequently mentioned in other types of internal documents (price negotiation emails, price benchmarking documents, sales meeting presentations, overstrikes reports, etc.) that we assess in Chapter 7.

Views on competition between wholesalers and 'all makes' suppliers

- 6.71 We considered the views of both 'all makes' suppliers and of wholesalers as to whether they are in competition with one another.
- 6.72 Of the 'all makes' suppliers, Roadcrew told us that they do compete with wide range wholesalers and take their pricing into consideration when setting their own prices. Roadcrew considers that wide range wholesalers are not direct competitors, but they consider them an indirect competitor because they sell to motor factors who then sell into dealer networks.
- 6.73 We also asked 'all makes' suppliers to rate their main competitors from 1 to 5, 5 being the closest competitor.¹¹¹ Roadcrew submitted that it was focused on other 'all makes' suppliers. It rated UC with a score of 2 and did not rate 3G.

¹¹⁰ For example, Roadcrew's category for brake discs may carry 20 units, whereas UC's brake disc category may carry 200 units.

¹¹¹ Third party questionnaire: The question was worded as follows: 'Rate your main competitors (on a scale of 1 to 5) based on how close the competitor is to you (with 1 being not close at all and 5 being very close) and explain the reasons why you consider them to be your main competitors'.

- 6.74 Scania did not submit a response to our third party questionnaire at phase 2. At phase 1, it submitted that it considered neither UC nor 3G to be its competitors in the wholesale supply of commercial vehicle and trailer parts in the UK, but rather to be its suppliers.
- 6.75 MAN did not submit a response to the questionnaire. It explained that it supplies genuine MAN parts to its 68 strong UK dealer network and does not wholesale parts to the IAM. It added 'we are not a wholesale parts competitor to Universal Components or 3G'.
- 6.76 We asked wholesalers whether 'all makes' suppliers competed with them in the supply of parts to the UK IAM and whether they took into consideration 'all makes' suppliers' prices when setting their prices.¹¹² Among those who replied, 18 out of 22 wholesalers responded to this question.¹¹³
- 6.77 Six¹¹⁴ out of seven wide range wholesalers did not consider 'all makes' suppliers as competitors or stated that any such competition was limited. The exception was Majorsell, which submitted that it competed 'a lot' with 'all makes' suppliers. [X]. CV Logix told us that it does not track 'all makes' suppliers' prices or take their prices into consideration.¹¹⁵ Two suppliers (DSS and Inter Cars) submitted that they do not supply garages or workshops.
- 6.78 In contrast, five¹¹⁶ out of eleven narrow range wholesalers who responded to our third party questionnaire saw 'all makes' suppliers as a relevant competitor. However, only two respondents specifically mentioned 'all makes' suppliers when we asked them to rate their main competitors.¹¹⁷ In particular, Winnard submitted that 'all makes' suppliers such as TRP, VRS or Roadcrew are its most significant competitors and it considers their pricing when setting Winnard's own prices. Automint stated that 'all makes' suppliers are 'a significant concern' and it sees them as a medium-term threat.' Dinex stated that 'all makes' suppliers 'are very competitive in the market and often we

¹¹² Third party questionnaire: The question was worded as follows: 'We understand that garages and workshops also source products from 'all makes'. To what extent do these 'all makes' compete with you in the supply of parts to the IAM? Do you take into consideration 'all makes' prices when setting your prices?' 'All makes' was defined as an aftermarket arm of vehicle manufacturer's business .

¹¹³ Sampa did not provide information on whether 'all makes' suppliers competed with them; Febi provided an unclear response; Juratek and ST Templin completed shorter questionnaires which did not have this question.

¹¹⁴ Diesel Technic, CV Logix, DSS, Inter Cars, Imexpart, Amipart.

¹¹⁵ While CV Logix submitted that it tracks 'all makes' wholesalers' prices and takes 'all makes' prices into consideration, on the call, CV Logix clarified that its response referred to suppliers such as 3G and UC which supply parts for all makes of vehicles and not to OEM 'all makes' programmes (such as TRP, VRS or Roadcrew), which CV Logix does not take into consideration.

¹¹⁶ Automint, Dinex, Guardian, Winnard and EBS.

¹¹⁷ Automint and EBS.

benchmark versus OE prices'. Dinex noted that they 'have been forced to drive down their prices to compete with all-makes'.

- 6.79 The remaining six¹¹⁸ narrow range wholesalers submitted that they did not consider 'all makes' suppliers to be a relevant competitor. For example, Durite and Nationwide submitted that they supply 'all makes' suppliers, while Fleet Parts submitted that 'all makes' suppliers are 'very little competition with regards to supplying the IAM' and would consider them more as a potential customer. Roadlink said that 'all makes are customer and competitor' but that they do 'not normally impact' when Roadlink sets prices. Granning indicated that it is 'not bothered by all makes suppliers'.
- 6.80 Wholesalers' views on who are their closer competitors – assessed in paragraphs 6.33 to 6.37 above – are that generally neither wide range nor narrow range wholesalers see 'all makes' suppliers as close competitors.

Provisional conclusion on competition from 'all makes' suppliers

- 6.81 As set out above, we have seen little evidence from the Parties' internal documents that they see competition from 'all makes' suppliers as a constraint. Similarly, most wide range wholesalers, and around half of narrow range wholesalers, did not see themselves as competing with 'all makes' suppliers, and generally they do not rate 'all makes' suppliers as close competitors. One 'all makes' supplier saw itself as competing indirectly with wide range wholesalers. However, two other 'all makes' suppliers did not see themselves as competing with the Parties.
- 6.82 In light of the above, our view is that 'all makes' suppliers should not be included in the relevant product market but we take into account any constraint they provide in our competitive assessment in Chapter 7.

Treatment of AAM

- 6.83 As described in Chapter 2, prices tend to be higher in the AAM than in the IAM. OEM products are more expensive than OES products, which the Parties told us are 10 to 15% more expensive than PL products. This price differential explains why customers tend to use the IAM once the vehicle warranty expires.

¹¹⁸ Borg & Beck, Durite, Nationwide, Fleet Parts, Roadlink, Granning.

- 6.84 In view of the above, we do not include the AAM within the relevant product market but we consider whether the AAM is an indirect constraint in Chapter 7.

Provisional conclusion on the relevant product market

- 6.85 We have provisionally found that the relevant product market is the wide range wholesale supply of CVT parts to motor factors in the IAM.
- 6.86 Taken in the round, we provisionally conclude that the evidence above supports defining a separate market for the wide range wholesale supply of CVT parts to motor factors in the IAM. Whilst a terminological distinction between ‘wide range’ and ‘narrow range’ wholesalers was not universally recognised by those who provided evidence to us, the views of most third parties were that different types of wholesalers had different strengths. In particular, some wholesalers and customers saw wide range wholesalers as being able to provide a convenient ‘one stop shop’ for buying a range of parts and considered that narrow range wholesalers were better placed to provide specialist knowledge and a deeper range of parts within the categories they supply. We recognise that there is a spectrum of wholesalers and there is not a clear-cut distinction between those that are ‘wide range’ and other wholesalers. We have defined ‘wide range wholesalers’ as including all the wholesalers that UC identifies as ‘wide range’ in the strategy documents we have reviewed and all other wholesalers that supply at least as many product fields, that is all wholesalers that supply at least 20 product fields.¹¹⁹
- 6.87 We also recognise that there is a degree of competitive interaction between wide range wholesalers and narrow range wholesalers, and between wide range wholesalers and OES parts manufacturers. While our provisional view is that the differentiation between them is such that it is appropriate to define a market for the wide range wholesale supply of CVT parts, we have taken the constraint from narrow range wholesalers and OES parts manufacturers into account in our competitive assessment.
- 6.88 We have similarly provisionally concluded that ‘all makes’ suppliers are not within the relevant product market but take any indirect constraint they provide into account in our competitive assessment. We also do not include the AAM in the relevant market but consider whether it is an indirect constraint in Chapter 7.

¹¹⁹ See Appendix D, Table D2 for an explanation of the product fields.

Geographic market

- 6.89 The Parties submitted that the market for the supply of CVT parts to the IAM is at least UK-wide and may be wider. The Parties submitted that both Parties have activities outside the UK and that some international wholesalers, such as Inter Cars, supply parts to the UK.
- 6.90 In this phase 2 inquiry, we have not received any additional evidence on this point from the evidence submitted to the CMA during the phase 1 investigation.
- 6.91 In our view, a national market definition is appropriate for the following reasons:
- (a) UC's internal documents generally refer to the UK IAM.
 - (b) Most wholesalers active in the UK IAM, including the Parties, are UK-based.¹²⁰
 - (c) Non-UK based wholesalers – such as Inter Cars (see paragraph 7.119) – offer longer delivery times. [REDACTED].
 - (d) Competitive conditions are similar across the UK, with the same wholesalers active across the entire UK territory. Products tend to be delivered across the UK from wholesalers' central warehouses.¹²¹
- 6.92 Taking the evidence in the round, our provisional view is that the relevant geographic market is the UK.

Provisional conclusion on the relevant market

- 6.93 In view of the above, we have provisionally found that the relevant market in this case is the wide range wholesale supply of CVT parts to motor factors in the IAM in the UK. We have taken account of other wholesalers as the closest out of market constraint in Chapter 7, where we also consider out of market constraints from manufacturers and 'all makes' suppliers.

¹²⁰ Calls with wholesalers.

¹²¹ The Parties told us that they believe most wholesalers with a physical presence in the UK tend to serve customers from a single location.

7. Competitive assessment

- 7.1 In this chapter, we assess the competitive effects of the Merger as they relate to the wide range wholesale supply of CVT parts to motor factors in the IAM in the UK. We have assessed whether removing one Party as a direct independent competitor would likely allow the Merged Entity profitably to increase prices or lower the quality of its products or customer service.¹²² This is a horizontal unilateral effects theory of harm.
- 7.2 The chapter is structured as follows:
- (a) We consider the market shares of the Parties and other suppliers.
 - (b) We assess the closeness of competition between the Parties.
 - (c) We assess the remaining constraint on the Parties from other competitors.
 - (d) Finally, we set out our provisional assessment of the impact of the Merger on competition.

Market shares

- 7.3 In this section we consider the market shares of the Parties and other suppliers in the market for the wide range wholesale supply of CVT parts to motor factors in the IAM in the UK.

Parties' submissions on market shares

- 7.4 The Parties submitted that the relevant markets affected by the Merger should be assessed on a product category by product category basis,¹²³ taking into account (at a minimum) all providers of CVT parts within that category that sell to independent motor factors.
- 7.5 The Parties submitted market shares for the top 23 categories in which TVS generates sales and said that UC and 3G were each relatively minor players in all of these product categories,¹²⁴ and in particular that:

¹²² [Merger Assessment Guidelines](#), paragraphs 5.4.1, 4.1.2 and 4.2.3.

¹²³ [Parties response to Phase 1 Decision](#), paragraph 5.1.

¹²⁴ [Parties response to Phase 1 Decision](#), paragraph 5.4.

- (a) UC's market share is below 5% in five of the 23 product categories; below 10% in 17 of the 23 product categories; and there is only one product category where UC's market share marginally exceeds 15%.
- (b) 3G has a market share below 5% in 15 of the 23 product categories; below 10% in 21 of 23 product categories; and there is only one product category where its market share marginally exceeds 15%.
- (c) The Parties' combined market share is below 15% in 15 of 23 product categories and below 25% in 22 of 23 product categories.¹²⁵ There is only one market where the Parties' combined share exceeds 30% (hub components).

Market share estimates

- 7.6 As explained in Chapter 6, we have provisionally found that the relevant market in this case is the wide range wholesale supply of CVT parts to motor factors in the IAM in the UK. We have classified a wholesaler as wide range if its supply in the UK IAM covers at least 20 product fields, as described in paragraph 6.40.
- 7.7 Table 7.1 presents our market share estimates for 2019. In classifying wholesalers as wide range, and estimating their revenues, we have used information from the wholesalers themselves where available; otherwise (in one case) we have used an estimate from the Parties.
- 7.8 In the first two data columns of Table 7.1, we have set out market shares first on the basis of revenues in the UK IAM, and then on the basis of revenues from sales to motor factors only. We focus on the share of revenues from sales to motor factors as this is the focus of the Parties' activities. In some cases, wholesalers also sell to other wholesalers, so using total revenues would result in double counting. However, we have also included shares based on total revenues because they are illustrative of the firm's overall scale in the IAM. The combined market share of the Parties on the basis of revenues from sales to motor factors is [REDACTED] [40 - 50]%.¹²⁶ CV Logix's market share is [REDACTED] [30 - 40]%. Each of the other wholesalers has a share of less than 10%.
- 7.9 In the final column of Table 7.1 we make two further adjustments.

¹²⁵ [Parties response to Phase 1 Decision](#), paragraph 5.5.

¹²⁶ In the main body of the text, we only refer to market shares based on revenues from motor factors.

(a) First, we take account of the fact that CV Logix focuses on supplying members of the AAG Group, of which CV Logix is itself a member. We understand that [REDACTED]% of CV Logix's sales are made to motor factors within AAG.¹²⁷

(b) Second, we take account of the fact that TTC has now exited the market.

7.10 We have recalculated the market shares excluding sales by TTC and intragroup sales by CV Logix. In effect this assumes that TTC's sales are redistributed across the remaining competitors in proportion to their market share. This is a conservative assumption – as discussed further in the assessment of closeness of competition section below,¹²⁸ there is evidence that UC and 3G were relatively close competitors to TTC, in which case may have attracted a higher share of purchases from TTC's previous customers than we have assumed.

7.11 In our view, excluding sales by TCC, and CV Logix's intra group sales is the most appropriate approach to deriving market shares which are representative of the Parties' market position. On this basis, the Parties have a combined share of [REDACTED] [50 - 60]% of revenues from motor factors.

Table 7.1: Market shares of wide range wholesalers of CVT parts in the IAM in the UK based on revenues

Wholesaler	Market share			%
	Total revenues in the IAM	Revenues from motor factors	Excluding TTC and intra-group sales by CV Logix	
UC	[REDACTED] [20 - 30]	[REDACTED] [20 - 30]	[REDACTED] [30 - 40]	
3G	[REDACTED] [10 - 20]	[REDACTED] [10 - 20]	[REDACTED] [20 - 30]	
Combined	[REDACTED] [30 - 40]	[REDACTED] [40 - 50]	[REDACTED] [50 - 60]	
CV Logix	[REDACTED] [20 - 30]	[REDACTED] [30 - 40]	[REDACTED] [10 - 20]	
Imexpart	[REDACTED] [10 - 20]	[REDACTED] [5 - 10]	[REDACTED] [5 - 10]	
Diesel Technic	[REDACTED] [5 - 10]	[REDACTED] [5 - 10]	[REDACTED] [5 - 10]	
TTC	[REDACTED] [5 - 10]	[REDACTED] [5 - 10]	n/a	
Amipart	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	
DSS	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	
DT Truck	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	
Emmerre*	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	
Febi	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	
Inter Cars	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	
Majorsell	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	
Sampa	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	[REDACTED] [0 - 5]	
Total	100	100	100	

Source: UC, 3G, competitor responses to third party questionnaire.

* Based on Parties' estimate and assuming all sales are to motor factors.

Note: Within each range, companies are listed in alphabetical order

¹²⁷ ([REDACTED])% of sales are to subsidiary/owned business).

¹²⁸ See for example Figure 7.2, Figure 7.4 to Figure 7.8, and paragraphs 7.94 and 7.95.

7.12 In Table 7.2 below, we present market shares based on two alternative definitions of ‘wide range’. First, we include only those wholesalers supplying into the UK IAM that are mentioned as ‘wide’ in UC strategy documents (see Figure 6.1). On this basis the Parties’ combined market share is [REDACTED] [40 - 50]% or [REDACTED] [60 - 70]% if we exclude CV Logix’s intra-group sales and TTC sales. Second, we include any wholesaler supplying into the UK IAM that the Parties called ‘wide’ in their response to the Initial Factual Questionnaire when submitting their list of competitors. On this basis the Parties’ combined market share is [REDACTED] [30 - 40]%, or [REDACTED] [30 - 40]% if we exclude CV Logix’s intra-group sales and TTC sales. We consider this approach to understate the Parties’ market shares – for example Automint accounts for [REDACTED] [5 – 10]% of the market on this basis, but it distributes within only 6 product fields.

Described as 'wide' in UC strategy documents			Described as 'wide' Parties response to Initial Factual Questionnaire		
Wholesaler	Market share	Market share	Wholesaler	Market share	Market share
	% revenues from motor factors	% of revenues excluding TTC and intra-group sales by CV Logix		% revenues from motor factors	% of revenues excluding TTC and intra-group sales by CV Logix
UC	[X] [20 – 30]%	[X] [30 – 40]%	UC	[X] [10 – 20]%	[X] [20 – 30]%
3G	[X] [10 – 20]%	[X] [20 – 30]%	3G	[X] [10 – 20]%	[X] [10 – 20]%
Combined	[X] [40 - 50]%	[X] [60 - 70]%	Combined	[X] [20 – 30]%	[X] [30 – 40]%
CV Logix	[X] [30 – 40]%	[X] [10 – 20]%	CV Logix	[X] [20 – 30]%	[X] [10 – 20]%
Imexpart	[X] [5 – 10]%	[X] [5 – 10]%	Automint	[X] [5 – 10]%	[X] [5 – 10]%
Amipart	[X] [0 – 5]%	[X] [0 – 5]%	EBS	[X] [5 – 10]%	[X] [5 – 10]%
DSS	[X] [0 – 5]%	[X] [0 – 5]%	Granning	[X] [5 – 10]%	[X] [5 – 10]%
DT Truck	[X] [0 – 5]%	[X] [0 – 5]%	Amipart	[X] [0 – 5]%	[X] [0 – 5]%
Febi	[X] [0 – 5]%	[X] [0 – 5]%	Borg & Beck	[X] [0 – 5]%	[X] [0 – 5]%
Sampa	[X] [0 – 5]%	[X] [0 – 5]%	Diesel Technic	[X] [0 – 5]%	[X] [0 – 5]%
TTC	[X] [5 – 10]%	n/a	DSS	[X] [0 – 5]%	[X] [0 – 5]%
			Dt Truck	[X] [0 – 5]%	[X] [0 – 5]%
			Emmerre	[X] [0 – 5]%	[X] [0 – 5]%
			Febi	[X] [0 – 5]%	[X] [0 – 5]%
			Fleet Parts	[X] [0 – 5]%	[X] [0 – 5]%
			Gardner	[X] [0 – 5]%	[X] [0 – 5]%
			Imexpart	[X] [0 – 5]%	[X] [0 – 5]%
			Inter Cars	[X] [0 – 5]%	[X] [0 – 5]%
			Juratek	[X] [0 – 5]%	[X] [0 – 5]%
			Majorsell	[X] [0 – 5]%	[X] [0 – 5]%
			Nationwide TP	[X] [0 – 5]%	[X] [0 – 5]%
			Omnipart	[X] [0 – 5]%	[X] [0 – 5]%
			Peters ¹²⁹	[X] [0 – 5]%	[X] [0 – 5]%
			Sampa	[X] [0 – 5]%	[X] [0 – 5]%
			ST Templin	[X] [0 – 5]%	[X] [0 – 5]%
			TTC	[X] [0 – 5]%	n/a

Source: UC, 3G competitor responses to third party questionnaire.
 * Based on Parties' estimate and assuming all sales are to motor factors.
 Note: Within each range, companies are listed in alphabetical order

7.13 We have assessed the sensitivity of the Parties' market share to our definition of a wide range wholesaler as being one with at least 20 product fields. In Table 7.3 below, we list wholesalers in descending order of the number of product fields they supply, and we set out how the Parties' implied combined market share would decrease with the addition of each wholesaler to the competitive set. The point at which [redacted] (which supplies [redacted] product fields) is added gives the Parties a combined share of [redacted] [50 – 60]%, corresponding to the final column of Table 7.1 above. If our threshold had been 15 product fields, the Parties would have a combined market share of [redacted] [40 – 50]%, and with a threshold of 10 product fields they would have a combined market share above 40%. Figure 7.1 illustrates these results. On this basis, our view is that the Parties' combined market share would be high such as to be an indicator of potential competition concerns on any reasonable definition of a wide range wholesaler, and on some definitions it would be particularly high.

Table 7.3: Parties' combined market shares variation based on competitors included in the competitive set

[redacted]

Figure 7.1: Parties' combined market shares sensitivity to definition of wide range wholesaler

[redacted]

Conclusion on market shares

7.14 Our analysis of market shares shows that:

- (a) The market is concentrated, with the three largest providers accounting for over two-thirds of supply (on most bases).¹³⁰
- (b) The Merger would combine two of the three largest suppliers in the market, giving the Merged Entity a significantly larger share than any of its competitors.

7.15 The market share of the Merged Entity, on any of the above bases, is high such as to be an indicator of potential competition concerns, and on some bases it is particularly high.

¹³⁰ Including providers who meet our categorisation as wide range (Table 7.1) or are described as such in UC's strategy documents (Table 7.2)

- 7.16 As part of its assessment of the effects of a merger on competition, the CMA may use market shares among other data.¹³¹ The combined market shares of the merger firms, when compared with their respective pre-merger market shares, can provide an indication of the change in market power resulting from a merger. In horizontal mergers in markets involving undifferentiated products, unilateral effects are more likely where the merger results in a firm with a large market share.¹³² However, where products are differentiated (ie similar but not perfect substitutes for one another) and some products are closer competitors to each other than to others in terms of, for example, branding, quality, characteristics or geographical location,¹³³ it should not be assumed that all firms in the market exercise competitive constraints upon one another in proportion to their market shares.
- 7.17 In the present case, we therefore need to consider whether the Parties are (at least) as significant competitors to each other as their market shares imply, or whether they may not in fact be significant competitive constraints on each other, for example because they are highly differentiated or operate in a wider market than that which we have defined.

Closeness of competition

- 7.18 In this section we assess a range of evidence on how closely UC and 3G compete with one another, relative to their closeness of competition with other suppliers in the market.

Parties' views

- 7.19 The Parties submitted that the 'vast majority of CVT parts are supplied at the wholesale level by businesses with deep technical expertise and experience of a relatively small number of core CVT part categories. These category experts are in fact a very significant competitive constraint on the Parties' and that 'in almost every market in which the Parties overlap, the Parties' largest competitor is not a so-called 'wide range' wholesaler, but rather a competitor focused on the relevant CVT parts category'.¹³⁴
- 7.20 The Parties told us that there is little or no physical difference between a given CVT part supplied under PL, OES or OEM branding.¹³⁵ Within each category, in addition to other wide range wholesalers, the Parties submitted that they

¹³¹ [Merger Assessment Guidelines](#), paragraph 5.3.1.

¹³² [Merger Assessment Guidelines](#), paragraph 5.3.4.

¹³³ [Merger Assessment Guidelines](#), paragraph 5.3.2.

¹³⁴ [Parties response to Phase 1 Decision](#), paragraph 1.3.

¹³⁵ [Parties response to Phase 1 Decision](#), paragraph 3.1.

face ‘strong competition from suppliers with different business models, including suppliers focused on one or a smaller number of product categories – so-called “narrow” or “niche” wholesalers’.¹³⁶

Outline of evidence on closeness of competition

- 7.21 We begin by noting that the Parties appear to have broadly similar offers. As set out in Chapter 2, both Parties offer a similarly wide range of parts (UC around [X] and 3G around [X]). PL parts account for the majority of sales of each of the Parties (UC [X]%¹³⁷ and 3G [X]% over the past three years). Both offer free next-day delivery above a minimum order threshold of £125, and next day delivery accounts for circa [X] % of 3G sales and [X] % of UC sales.
- 7.22 We consider evidence on closeness of competition in the following categories:
- (a) Evidence on how much the Parties influence each other’s pricing:
 - (i) Pricing benchmarks used by the Parties.
 - (ii) Competitors considered in the Parties’ internal documents – these include internal discussions of prices, the Parties’ discussions with customers and records in UC’s Customer Relationship Management (CRM) database.
 - (iii) Reasons recorded for price reductions by the Parties.
 - (iv) Other providers that the Parties’ customers invite to quote for their business.
 - (b) Evidence of customer switching and diversion:
 - (i) Competitors from whom the Parties win business or see opportunities to win business.
 - (ii) Competitors to whom the Parties lose business.
 - (iii) The Parties’ switching analysis.
 - (iv) Our assessment of diversion ratios:
 - (c) UC’s merger rationale documents.

¹³⁶ [Parties response to Phase 1 Decision](#), paragraph 4.5.

¹³⁷ Including both UC branded PL and other PL (see notes to Table 2.2).

(d) Customer and competitor views on the Merger.

Evidence on how much the Parties influence each other's pricing

7.23 We have considered a range of evidence, particularly from the Parties' internal documents, about their influence on each other's pricing decisions relative to other providers.

Pricing benchmarks

7.24 We have examined the Parties' internal documents for evidence as to which other providers they use as 'benchmarks' or comparators for their own performance (eg on price competitiveness). Such evidence is potentially informative as to which providers the Parties see as close competitors.

7.25 UC provided annual 'Master Price Review'¹³⁸ documents for the years 2017 to 2019, with information at a product (part) level on product costs, prices and margins for UK motor factors. The 2019 'Master Price Review' document also contains equivalent prices (where available) for:¹³⁹

(a) [REDACTED]

(b) [REDACTED].

(c) [REDACTED].

7.26 UC told us that it uses Master Price Reviews primarily to assess whether [REDACTED].

7.27 In addition, UC submitted 'Price Review Guidelines – 1st Aug Launch' (Aug 2019), which include a section with the heading 'Competitor Considerations' that notes [REDACTED]¹⁴⁰[REDACTED].

7.28 3G submitted that [REDACTED] and commented that:

(a) [REDACTED].

7.29 3G provided:

(a) documents referred to as Price Reviews which contain detailed [REDACTED];

¹³⁸ UC maintains a Price Matrix, which is a live document containing competitor prices. Master Price Review documents are snapshots of the Price Matrix.

¹³⁹ The 2017 and 2018 reviews do not contain competitor prices.

¹⁴⁰ [REDACTED]

(b) documents referred to as Price Lists. These contain information [REDACTED];¹⁴¹ and

(c) a price review document for [REDACTED].¹⁴²

7.30 In our view, the fact that 3G [REDACTED] is consistent with UC being 3G's closest competitor.

Analysis of UC's price benchmarking

7.31 We have looked at the frequency with which other providers' prices are benchmarked by UC, as an indicator of the relative competitive closeness to UC of these other providers. We have assessed price benchmarking for approximately 11,000 UC parts for which at least one supplier was benchmarked in UC's 2019 'Master Price Review' document.¹⁴³ We have also assessed the same price benchmarking of products within each of the high level categories, ie general chassis, engine, transmission, axle, braking, body, electrical, steering & suspension, and consumables,¹⁴⁴ which together cover all products in the market.

- *Results across products*

7.32 Looking across all the products included in the analysis, wide range suppliers are benchmarked far more often than any other type of wholesaler or supplier. [REDACTED]% of products are benchmarked against at least one wide range supplier, compared with [REDACTED]% benchmarked against at least one narrow range wholesaler and [REDACTED] benchmarked against at least one [REDACTED] price. For [REDACTED]% of the products only wide range wholesalers are benchmarked. Wide range wholesalers and at least one narrow range wholesaler are benchmarked for a further [REDACTED]% of the products and wide range wholesalers and at least one OEM dealer are benchmarked for [REDACTED]% of the products. The [REDACTED]% of products benchmarked against at least one narrow range wholesaler, are, in most cases ([REDACTED]% out of [REDACTED]%) benchmarked against a single narrow range wholesaler, with only [REDACTED]% out of [REDACTED]% benchmarked against more than one narrow range wholesaler, from which we infer that UC is not facing strong competition from multiple narrow range wholesalers within most of these products.

¹⁴¹ The 2017 price review document includes [REDACTED].

¹⁴² Excluding obsolete and superseded products, [REDACTED] products (out of total [REDACTED]) have an equivalent UC price.

¹⁴³ We have excluded the following products: [REDACTED].

¹⁴⁴ The Master Price review document also contains an additional product group (coded TV). The products in this group cover electrical and engine products and these were assigned to either electrical product category or engine product category.

- 7.33 Similar results are obtained when the products are weighted by the value of sales. [X]% of the products are benchmarked against at least one wide range supplier (Figure 7.2), compared with [X]% benchmarked against at least one narrow range wholesaler and [X]% benchmarked against at least one OEM dealer. The [X]% of products benchmarked against at least one narrow range wholesaler, are in most cases ([X]% out of [X]%) benchmarked against a single narrow range wholesaler, with only [X]% out of [X]% benchmarked against more than one narrow range wholesaler. More than half of prices are benchmarked only against other wide range wholesalers ([X]%) and fewer than [X]% are benchmarked only against narrow range wholesalers ([X]%) or OEM dealers ([X]%).

Figure 7.2: Share of products (weighted by sales) on which each type of supplier or combination of suppliers is benchmarked in UC's 2019 Master Price Review

[X]

- 7.34 As shown in Figure 7.3 below, 3G is benchmarked for [X]% of the products ([X]% weighted by sales), which is more than any other wide range wholesaler or any other supplier. [X], which was also a wide range wholesaler, was the second most frequently benchmarked supplier ([X]% of products, [X]% when weighted by sales). The Parties submitted that 'this figure over-represents 3G and simply reflects that 3G is active in many categories and mentioned alongside other competitors'. We do not agree that this figure overstates the importance of 3G as a competitor to UC. The fact that 3G is active in many of UC's categories is in itself an indicator of the extent of competition between the Parties. In addition, 3G is benchmarked against far more products than other wide range wholesalers, with the next highest (excluding [X]) being [X] ([X]%, or [X]% weighted by sales), and with [X] benchmarked for very few products ([X]%, or [X]% weighted by sales).

- 7.35 Considering the proportion of competitor mentions ([X] mentions in total), 3G is the most frequently benchmarked competitor ([X]%), followed by [X] with [X]%. As TTC has now exited the market, this figure (and others which include TTC) may understate the future closeness of competition between the Parties, relative to the competition they face from other providers. If [X] is excluded, 3G accounts for [X]% of mentions in UC's benchmarking, followed by [X] with [X]%. Narrow range wholesalers accounted for a cumulative [X]% of total mentions.

Figure 7.3: Mentions of competitors in UC's 2019 Master Price Review (unweighted by value of sales)

[X]

7.36 These results are consistent with wide range wholesalers being a more significant competitive constraint on the Parties than narrow range wholesalers. They are also consistent with 3G being UC's closest competitor.

- *Results across categories*

7.37 Within each product category, wide range wholesalers are benchmarked for at least [X]% of products and up to [X]% of products. In some categories – Consumables, General Chassis, Electrical – wide range wholesalers are benchmarked for all or almost all products, with limited or no benchmarking of narrow range wholesalers or OEM dealers. In two categories – Body, Steering & Suspension – a majority of products are benchmarked against narrow range wholesalers and OEM dealers, although more are benchmarked against wide range suppliers.

Table 7.4: Share of products (weighted by sales) on which each type of supplier or combination of suppliers is benchmarked in UC's 2019 Master Price Review across main product categories

Category	% [X]				
	Wide	Narrow	OEM dealer	Wide and narrow	Wide and OEM dealer
General Chassis	[X]	[X]	[X]	[X]	[X]
Engine	[X]	[X]	[X]	[X]	[X]
Transmission	[X]	[X]	[X]	[X]	[X]
Axle	[X]	[X]	[X]	[X]	[X]
Braking	[X]	[X]	[X]	[X]	[X]
Body	[X]	[X]	[X]	[X]	[X]
Electrical	[X]	[X]	[X]	[X]	[X]
Steering & Suspension	[X]	[X]	[X]	[X]	[X]
Consumables	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis of UC internal documents.

Figure 7.4: Share of products (weighted by sales) on which wide range wholesalers are (i) benchmarked alone, (ii) with narrow range wholesalers and (iii) with OEM dealers in UC's 2019 Master Price Review across main product categories.

[X]

Competitors considered in internal documents

7.38 A mention of a competitor in an internal document may be informative of the constraint exerted by that competitor. However this can depend on the context in which the competitor is mentioned. In the present case, we have essentially conducted a quantitative analysis of the number of times a given competitor is mentioned, rather than looking at the specific wording in the documents. Given the particular categories of internal documents we are considering – ie pricing discussions, pricing negotiations, discussions of losses to competitors

etc – our view is that the number of times a competitor is mentioned in such documents is informative of the constraint it exerts on the Party concerned.

- 7.39 We asked the Parties to provide all internal documents related to negotiations with customers from June 2017 to June 2020. UC provided 2,146 documents and 3G provided 380 documents.
- 7.40 To analyse these documents, we distinguished between purely internal emails where the staff of one of the Parties discusses pricing, and documents recording external correspondence between one of the Parties and one of their customers. We address these two categories of documents in turn below.
- 7.41 We analysed a random sample of 40% of UC's documents,¹⁴⁵ and all 380 documents provided by 3G. One of these 3G documents relates to records of price negotiations conducted via its website chat function¹⁴⁶ between 2017 and 2020 (the 'customer chat document').
- 7.42 We excluded documents that did not identify a competitor or did not relate clearly to either price negotiations or competitor pricing, duplicates, and a small number of documents that were unreadable for technical reasons.
- 7.43 Our final assessment used 606 UC documents (118 price negotiation emails and 488 internal emails discussing on competitor pricing) and 730 3G documents (425 webchat negotiations, 71 price negotiation emails, and 234 internal emails discussing on competitor pricing).

Internal emails containing discussions of prices

- 7.44 Figure 7.5 and Figure 7.6 below report the frequency of mentions of different competitors in internal emails discussing pricing. 3G accounts for [X]% of total mentions in UC's documents (more than three times as many mentions as the next most frequently mentioned supplier), and UC accounts for [X]% of total mentions in 3G's documents (more than twice as many mentions as the next most frequently mentioned supplier). If mentions of TTC are excluded, 3G accounts for [X]% of mentions in UC's documents and UC accounts for [X]% of mentions in 3G's documents. Overall, wide range wholesalers account for [X]% of mentions in UC's documents, and narrow range for [X]%, while in 3G's documents wide range wholesalers account for [X]% of mentions and narrow range wholesalers for only [X]%.

¹⁴⁵ The sample documents were selected randomly in Stata.

¹⁴⁶ Webchat is a format that allows customers to communicate directly with brands online, often on their websites and in real time.

Figure 7.5: Frequency of mentions of different competitors in UC's emails discussing pricing

[X]

Figure 7.6: Frequency of mentions of different competitors in 3G's emails discussing pricing

[X]

Competitors mentioned in pricing negotiations

- 7.45 Next we look at which other providers were mentioned as potential competitors in price negotiations between the Parties and their customers.
- 7.46 We categorised a document as negotiation correspondence if it showed: an exchange between a customer and one of the Parties in respect of the sale of a specific SKU (or a group of SKUs); an email request or webchat from a customer to the Parties in respect of an SKU; or an internal email request from the Parties to match a competitor on a given SKU for a given customer.
- 7.47 In some communications between the Parties and customers, the customer uses a quote from another supplier as 'leverage' to obtain a better price. The customer typically approaches one of the Parties to request pricing on one or several SKU(s) and may mention a competitor price at the outset or in the course of the exchange. There are also examples of the Parties approaching customers to instigate pricing negotiations, or to understand which competitors they are up against during price negotiations. Both UC and 3G use email for such exchanges, while 3G also uses webchats.¹⁴⁷
- 7.48 Figure 7.7 and Figure 7.8 below report the results of our analysis of these documents for UC and 3G, respectively. For each competitor, these charts report the number of mentions of that competitor divided by the total number of mentions of all competitors in the documents reviewed ('proportion of total mentions'), and the share of documents in which the competitor is mentioned ('proportion of documents'). In UC's documents, 3G is mentioned in [X]% of documents and accounts for [X]% of mentions.^{148,149} In 3G's documents, UC

¹⁴⁷ Similar negotiations may take place without generating any documentary evidence, eg online or phone calls.

¹⁴⁸ In UC's documents, at least one wide range wholesaler is mentioned in [X]% of documents and account for [X]% of total mentions when including TTC. Documents that account for only wide range wholesalers account for [X]% of documents whilst [X]% of documents mention only narrow range wholesaler when including TTC.

¹⁴⁹ If TTC is excluded, 3G accounts for [X]% of total mentions.

is mentioned in [REDACTED]% of documents and accounts for [REDACTED]% of mentions.^{150, 151}

Figure 7.7: Mentions of competitors in negotiations with UC (emails)

[REDACTED]

Figure 7.8: Mentions of competitors in negotiations with 3G (emails and webchats)

[REDACTED]

UC's Customer Relationship Management database

- 7.49 In addition to individual emails, UC provided an extract of its Customer Relationship Management (**CRM**) database, which summarises its sales representatives' discussions with customers. The notes generally include information [REDACTED] (these are discussed in paragraph 7.69 below).
- 7.50 We focused on the period from January 2019 to June 2019, in which there were 373 entries, excluding the 180 entries related to leakages and 251 entries that did not mention any competitors. Figure 7.9 shows the number of entries (out of 373 entries) in which each competitor is mentioned divided by the total number of competitor mentions (449 mentions).¹⁵² This shows that 3G is the competitor most frequently mentioned ([REDACTED]% of mentions) by some distance, followed by TTC ([REDACTED]%) and CV Logix ([REDACTED]%). Wide range wholesalers account for approximately [REDACTED]% of mentions and narrow range wholesalers for [REDACTED]%. If TTC is excluded, 3G accounts for [REDACTED]% of mentions.

Figure 7.9: Share of entries each competitor is mentioned in UC's CRM database

[REDACTED]

Reasons recorded for price reductions

- 7.51 UC submitted a spreadsheet containing data on 'overstrikes' recorded from April 2019 to July 2020. An overstrike is an instance where a given customer is granted a price reduction for a particular part(s).

¹⁵⁰ In 3G's documents, at least one wide range wholesaler is mentioned in [REDACTED]% of documents and wide range wholesalers account for [REDACTED]% of total mentions when including TTC. Documents that account for only wide range wholesalers account for [REDACTED]% of documents whilst [REDACTED]% of documents mention only narrow range wholesalers when including TTC.

¹⁵¹ If TTC is excluded, UC accounts for [REDACTED]% of total mentions.

¹⁵² If a competitor is mentioned several times in one entry, this is counted as one mention.

7.52 The spreadsheet includes [REDACTED]¹⁵³ [REDACTED]. Figure 7.10 below shows some examples of entries from the ‘overstrikes’ spreadsheet.

Figure 7.10: Extracts from overstrikes spreadsheet

[REDACTED]

7.53 We have considered entries where the reasons behind the overstrike relate to explicit price matching of a supplier.¹⁵⁴ These entries typically contain records such as [REDACTED] under a ‘reason’ column. In approximately [REDACTED]% of cases¹⁵⁵ ([REDACTED] entries) the overstrikes were not explicitly related to competition. We have counted how often different competitors were identified as a reason for a price reduction in the remaining [REDACTED]% of cases ([REDACTED] entries).

7.54 Figure 7.11 below summarises the results of the analysis. 3G accounts for [REDACTED]% of reasons given for a price reduction, [REDACTED]% if TTC is excluded. All other suppliers are identified in [REDACTED]% or fewer of reasons given. Wide-range suppliers together account for [REDACTED]% of mentions and narrow range wholesalers account for [REDACTED]% of mentions. While this evidence supports a view that 3G is UC’s closest competitor, we have given less weight to this analysis because, as noted above, this analysis only relates to the [REDACTED]% of cases where competitors are recorded and we would also expect other price reductions, where no competitor is recorded, to be largely driven by competitive pressure.

Figure 7.11: Share of different suppliers mentioned as a reason for price reduction, (%)

[REDACTED]

The Parties’ representation on negotiation documents

7.55 As discussed in paragraph 5.33, in responding to working papers, the Parties submitted that there is a distinction between ‘ad hoc sales’ and ‘primary sales’. The Parties submitted that when making ‘ad hoc’ purchases, which were a very small proportion of their sales, customers might value the ability to add the item to a pre-existing order, and on average it is more likely that a customer will have a pre-existing open order with a wide range wholesaler when the requirement for an ad hoc part arises. The Parties submitted that a large proportion of the email negotiation and overstrike documents discussed

¹⁵³ The overstrikes spreadsheet consists of data in two different sheets, one called ‘Overstrikes Report’ and the other called ‘Overstrikes Report New Format’. The new format report did not include a ‘Reason’ column but the ‘Internal Feedback’ column provides the same type of information at a similar degree of detail.

¹⁵⁴ [REDACTED]

¹⁵⁵ We have excluded all customers from Republic of Ireland for this analysis.

above relate to 'ad hoc' sales, and this explained the relative frequency of 3G mentions in these documents.

- 7.56 We have not seen a distinction between 'ad hoc' and 'primary' sales in the Parties' internal documents, nor have customers described such a distinction to us in our discussions with them.¹⁵⁶ While most of the Parties' price negotiation documents relate to one or a small number of products, they do not necessarily relate to one-off purchases. In many of these emails and webchats, the customer brings up a competitor's price and asks to be 'set up' for that particular price in UC's or 3G's system, often with no mention of an immediate purchase. UC has also told us that information gathered from price negotiations is regularly fed into price benchmarking documents. In our view, this practice would not make sense if price negotiations related to very specific circumstances that are not representative of broader competitive conditions. Similarly with respect to overstrikes, UC told us that this information is used to inform broader business views on the companies' competitiveness.¹⁵⁷ In our view, this practice would not make sense if overstrikes related purely to ad hoc transactions that reflected different conditions of competition.

Other providers invited to quote

- 7.57 We asked customers whether they requested quotes from alternative suppliers when deciding to purchase from either of the Parties.¹⁵⁸ Of the 10 customers who answered this question with respect to purchases from UC and named alternative suppliers, eight named 3G, five of whom also mentioned one or more other competitors (in three cases this included TTC). Of the 12 customers who answered this question with respect to purchases from 3G and named alternative suppliers, 11 named UC,¹⁵⁹ four of whom also mentioned one or more other competitors (with three mentions of TTC).¹⁶⁰

Summary of evidence on how much the Parties influence each other's pricing

- 7.58 In summary:

¹⁵⁶ Except that in response to a customer questionnaire Alliance Automotive Group commented 'We have preferred supplier routes plus adhoc.' In this context, we have interpreted 'adhoc' to refer to purchases outside preferred suppliers, rather than necessarily to one-off purchases.

¹⁵⁷ [REDACTED].

¹⁵⁸ Third party questionnaire: The question was worded as follows: When you purchase from [UC/3G]: Do you also contact alternative suppliers asking for quotes? If yes, indicate how many suppliers you usually contact and how you decide which ones to contact.

¹⁵⁹ 10 of these 11 customers were customers of both UC and 3G. One was a customer of 3G only.

¹⁶⁰ TTC was mentioned four times with UC; Amipart once, Truckwise once, and Digraph once. 10 of these customers were 3G and UC customers.

- (a) 3G [REDACTED] (paragraph 7.28), while UC benchmarks its prices against other wide range wholesalers much more often than against narrow range wholesalers or OEM dealers (paragraph 7.33), and it benchmarks against 3G [REDACTED] as any other individual wholesaler [REDACTED] (paragraph 7.34).
- (b) In both UC and 3G's internal communications discussing pricing, a range of competitors are mentioned, but the Parties mention one another in around [REDACTED] documents, which [REDACTED] times as often as any other competitors (paragraph 7.44 and Figure 7.5 and Figure 7.6). 3G accounts for [REDACTED]% of competitor mentions in UC's CRM database (paragraph 7.50 and Figure 7.9), far more than the next highest suppliers ([REDACTED] at [REDACTED]% and [REDACTED] at [REDACTED]%).
- (c) In email price negotiations with customers, 3G is mentioned in over [REDACTED] UC email exchanges, and UC is mentioned in [REDACTED] 3G email and webchat exchanges. [REDACTED] is mentioned in a small minority of email exchanges, and no other competitor is mentioned by name in more than [REDACTED]% of exchanges (paragraph 7.48 and Figure 7.7 and Figure 7.8).
- (d) In recording reasons for offering price reductions, UC mentions 3G in [REDACTED]% of cases where a reason is given, while other competitors are each mentioned in [REDACTED]% of cases or fewer. Wide range suppliers are most commonly mentioned ([REDACTED] %) (paragraph 7.54).
- (e) Among customers who named alternative suppliers from whom they requested quotes when deciding to purchase from the Parties, almost all of those who had purchased from one of the Parties had requested quotes from the other one, with few mentions of other competitors, particularly if TTC is excluded (paragraph 7.57).

7.59 This evidence shows that, while UC has regard to a range of competitors in setting its prices, its main focus is on wide range wholesalers, and in particular on 3G, which is far more prominent in its internal documents on pricing than any other competitor. 3G's pricing also appears to be very strongly influenced by UC: [REDACTED], and UC is named in [REDACTED] of its price negotiations with customers. In our view, the evidence, taken in the round, points towards the Parties being one another's closest competitors. By some measures, each of the Parties is as important a constraint on the other as all other competitors combined.

Evidence of customer switching and diversion

- 7.60 Next we consider evidence from the Parties as to the competitors from which they have won business, or see as offering an opportunity to win business, and those to which they have lost business.
- 7.61 This is potentially informative as to which providers may be a competitive constraint on the Parties – ie where they might lose business if they were to increase prices above competitive levels, and in particular the extent to which they have been a competitive constraint on one another to date.

Wins and opportunities

- 7.62 UC sales managers prepare regular presentations which include ‘wins’ which they have ‘personally achieved this month’ (identifying the previous supplier), and ‘opportunities’ among the customers of their competitors. Figure 7.12 below shows an example of such reports, but the presentation of ‘wins’ and ‘opportunities’ vary across presentations. As illustrated, ‘wins’ can refer to sales of individual parts, with values as low as under £100 and typically under £500 and in many cases a competitor is not recorded. ‘Opportunities’ show values over twelve months (£500 to £5,000 in the example shown).¹⁶¹

Figure 7.12: Example of a ‘wins’ and ‘opportunities’ analysis

[REDACTED]
[REDACTED]

- 7.63 We have reviewed all 17 presentations provided by UC,¹⁶² from the period June 2017 to May 2020. Figure 7.13 below summarises the results for ‘wins’.¹⁶³ While a range of suppliers are mentioned, 3G is referenced significantly more often than any of the other suppliers, accounting for [REDACTED]% of wins ([REDACTED] out of total [REDACTED] wins), and [REDACTED]% if TTC is excluded. Wide-range suppliers account for [REDACTED]% of wins and narrow range for [REDACTED]% (or, excluding TTC, [REDACTED]% and [REDACTED]% respectively).

Figure 7.13: Share of mentions of different suppliers in UC’s analysis of wins (%)

[REDACTED]

¹⁶¹ The presentation dated August 2018 also contains a ‘swot’ analysis. The analysis only identifies one competitor ([REDACTED]) among its opportunities (other opportunities appear largely to relate to service improvements), and notes that the main threats are [REDACTED].

¹⁶² Four regional presentations do not contain ‘wins’ or ‘opportunities’.

¹⁶³ We note that some of the wording in these action points is open to interpretation.

7.64 Figure 7.14 below summarises the results for opportunities. Similar to ‘wins’, a range of suppliers are mentioned but 3G is referenced significantly more often than any of the other suppliers, accounting for [X]% of a total of 209 supplier mentions ([X]% if TTC is excluded). Wide-range suppliers account for [X]% of opportunities and narrow range for [X]% (or, without TTC, [X]% and [X]% respectively). As discussed below (paragraph 7.67), [X]. This may be reflected in the fact that 3G and (wide range wholesalers) appear [X] in UC’s ‘opportunities’ than in its ‘wins’.

Figure 7.14: Share of mentions of different suppliers in UC’s analysis of opportunities (%)

[X]

UC sales meeting minutes

7.65 UC has also submitted the minutes for 34 sales meetings that took place in 2019 (full year) and February 2020. These include action points, many of which appear¹⁶⁴ to relate to price monitoring and the identification of sales opportunities.

7.66 Figure 7.15 below reports the frequency of mentions of competitors in these action points. 3G is mentioned most often ([X]% of times (out of total 101 mentions), [X]% if TTC is excluded), followed by [X] ([X]%), and [X] ([X]%). There is a long tail of competitors, with approximately half of the competitors being referred to only once. Wide range wholesalers account for [X] of mentions, and narrow range wholesalers account for [X]%.

Figure 7.15: Share of mentions of different competitors in UC’s sales meeting minutes (%)

[X]

7.67 The meeting minutes for June 2019 show a desire to broaden the scope of competitive efforts beyond 3G: [X].

7.68 The more substantial comments relating to individual competitors are reported in Table 7.5. The emphasis of the comments does not appear to vary materially between different competitors – most of them relate to specific customer or product opportunities.

Table 7.5: Action points referring to particular competitors in Sales Meeting Minutes

Competitor	Quotes regarding a competitor (not a full list of quotes)
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¹⁶⁴ Some of the wording in these action points is open to interpretation.

Several competitors – wide range	[REDACTED]
Several competitors – wide and narrow range	[REDACTED]
3G	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

Source: CMA analysis of UC internal documents.

Losses to competitors

7.69 UC's CRM database (see paragraph 7.49) includes entries that record 'leakages',¹⁶⁵ ie loss of sales, whether of individual products or product groups.¹⁶⁶ As shown in Table 7.6, 3G was the most frequently identified competitor ([REDACTED]% of leakages to competitors, [REDACTED]% if TTC is excluded), followed by [REDACTED] and [REDACTED].¹⁶⁷

Table 7.6: Causes of leakages identified in UC's CRM database

[REDACTED]

The Parties' switching analysis

7.70 The Parties estimated switching rates based on their sales data.¹⁶⁸ They identified a 'loss event' when one Party sold a part to a customer for three consecutive months but not in the next three months. They identified this as a 'switching event' where the customer increased its purchase of the same or equivalent part from the other Party in the second three-month period. Based on this approach, in 2019 switching to 3G accounted for [REDACTED] [5 – 10]% of UC's loss events, and vice versa.¹⁶⁹ Using six month periods to identify loss and switching events, the estimates increase to [REDACTED] [10 – 20]% and [REDACTED] [10 – 20]%, respectively. Treating any increase in quantity by one Party as a complete switch from the other (even if the increase does not amount to the volumes lost by the other party), and identifying loss and switching events on

¹⁶⁵ 180 entries record leakages, many of which have information about multiple leakages. In total 391 leakages have identified causes and 126 leakages have unclear causes.

¹⁶⁶ [REDACTED].

¹⁶⁷ In some cases, depending on the context, we have assumed that reference to a branded part is a reference to leakage to supply of that part by the relevant OES part manufacturer.

¹⁶⁸ Further details are provided in Annex E.

¹⁶⁹ CRA reported around 6,000 loss events per annum based on 3 month periods, but only around 300 loss events per annum based on 6 month periods, although the latter were more valuable on average.

a six-month basis, these estimates of switching increase to [X] [20 - 30]% and [X] [20 - 30]%, respectively.

- 7.71 We note that both Parties sell a very large range of parts, and that most customers multi-source between the two Parties and other providers. In this context, it is not clear that meaningful measures of switching can be derived from transaction data. As illustrated in Table 7.6 above, a customer can stop buying a part for a wide range of reasons, and in [X] of cases recorded in UC's CRM database ([X] in Table 7.6) the reason was not to switch to another provider. In addition, as the figures in the previous paragraph show, the proportion of 'switching events' between the Parties is highly sensitive to the assumptions adopted. We address these submissions in detail in Appendix E. In light of these shortcomings, our view is that the analysis does not provide reliable evidence on consumer switching behaviour.

Diversion to different types of suppliers

- 7.72 A diversion ratio between Provider A and Provider B represents the proportion of sales that would divert to Provider B (as opposed to Providers C, D, E etc) as customers' second choice in the event of a price increase from Provider A.¹⁷⁰ Other things being equal, a high diversion ratio between two merging parties means that a price rise by the merged entity will be less costly, in terms of lost business, than if there was little diversion of demand between the merging parties. Accordingly, it is a factor which points towards a merger resulting in unilateral horizontal effects.
- 7.73 We asked UC customers which suppliers they would use to source those parts they bought from UC in a scenario where UC were not available to purchase from, and we asked 3G customers the corresponding question for a scenario where 3G were not available.¹⁷¹ Figure 7.16 and Figure 7.17 below show the results for UC and 3G, respectively.¹⁷² The expenditure weighted diversion between the Parties is [X] [40 - 50]% from UC to 3G, and [X] [50 - 60]% from 3G to UC.¹⁷³ Wide range suppliers accounted for [X] [60 - 70]% of diversion from UC, with [X] [10 - 20]% to narrow range suppliers and [X] [5 -

¹⁷⁰ See, by analogy in relation to Products A and B, [Merger Assessment Guidelines](#), footnote 52 to paragraph 5.2.15(a).

¹⁷¹ Third party questionnaire: The question was worded as follows (for UC): 'Thinking about the parts that you bought from Universal Components in the last 6 months, suppose that Universal Components had not been operating - which alternative supplier(s) would you have used instead to buy these parts?'. The same question was asked to 3G, substituting 3G for UC.

¹⁷² These diversion ratios are weighted by the value of customer purchases. Let DR_{ij} denote the diversion ratio from supplier i to supplier j , C_i the subset of customers who purchase parts from supplier i in the sample, d_{kij} the proportion of customer k 's purchase from supplier i that would be purchased from supplier j if supplier i was unavailable, and p_{ki} the value of customer k 's purchases from supplier i , then $DR_{ij} = \frac{\sum_{k \in C_i} d_{kij} p_{ki}}{\sum_{k \in C_i} p_{ki}}$

¹⁷³ Unweighted diversion is [X]% from UC to 3G, and [X]% from 3G to UC.

10]% to OES parts manufacturers. Similarly, wide range suppliers accounted for [X] [70 - 80]% of diversion from 3G, with [X] [10 - 20]% to narrow range suppliers, and only [X] [0 - 5]% to OES parts manufacturers.

Figure 7.16: Weighted diversion from UC to other suppliers

[X]

Figure 7.17: Weighted diversion from 3G to other suppliers

[X]

- 7.74 Because we asked the diversion question with respect to past purchases, some customers reported some diversion to TTC. If diversion to TTC is reallocated to other suppliers pro-rata to diversion excluding TTC, diversion from UC to 3G increases to [X]%, and diversion from 3G to UC increases to [X]%.
- 7.75 The Parties have submitted that the wording of our diversion question was biased, firstly because it related to all parts bought from UC over the past 6 months without making distinction between categories, and secondly because the first sub-point of the question mentioned the possibility of using a single alternative supplier. The Parties further submitted that the latter point ‘immediately eliminates the possibility of customers identifying more than one other wide range supplier’.
- 7.76 We do not accept that the wording or structure of our diversion question was biased. The wording of the first sub-point of the question explicitly allowed for the possibility of splitting purchases between more than one supplier. Moreover, the following subpoint asked respondents to state the categories that they would have bought from the primary alternative, implying that diverting different categories to different suppliers was a valid and expected answer.¹⁷⁴
- 7.77 In practice, only nine customers named just one alternative supplier, and these were generally small customers. The other respondents named between two and 39 alternative suppliers. Many respondents also named several wide range suppliers in their responses – implying that they understood that even if they had a preference for sourcing baskets of goods, they could do so from multiple suppliers.

¹⁷⁴ We also note that a diversion question asks respondents to consider a complex, hypothetical scenario, and breaking up the question into smaller steps can help to limit the scope for confusion or misinterpretation. Also, it would not have been feasible to ask individual diversion questions for different products.

Summary of customer switching and diversion

7.78 In summary:

- (a) Where UC has identified 'wins' from identified competitors, 3G was the losing competitor in [X]% of cases, and all other wide range wholesalers in a further [X]% of cases (paragraph 7.63).
- (b) Among business opportunities which UC has identified, [X]% are from customers of 3G and in total [X]% are from customers of wide range wholesalers. UC has recently sought to broaden its competitive activities beyond 3G (paragraph 7.64).
- (c) In UC's sales meeting minutes, which largely relate to price monitoring and opportunities, [X]% of competitor mentions are of 3G and in total [X]% are of wide range wholesalers (paragraph 7.66).
- (d) In UC's CRM database, 3G was the most frequently cited source of leakages to competitors, accounting for [X]% of such leakages (paragraph 7.69).
- (e) In our view, the Parties' analysis does not provide reliable evidence of switching rates.
- (f) Based on questionnaire responses, our estimates of diversion between the Parties are [X]% from UC to 3G, and [X]% from 3G to UC (paragraph 7.73) – ie half or more of each Parties' sales would be diverted to the other.

7.79 This evidence shows that 3G is an important competitor to UC in terms of the business it wins, opportunities, and the losses and competitive threats it faces, while an estimated half or more of diversion from the Parties would be to one another. This is broadly what we might expect in a market for wide range wholesalers where UC accounts for [X] [30 - 40]% share and 3G accounts for [X] [20 - 30]% (or around one-third of the remaining [X]%). Our view is therefore that the evidence set out above, taken in the round, points towards the Parties being one another's closest competitor, and potentially more important to one another than other competitors in combination.

The Parties' merger rationale and strategy documents

7.80 A number of points made in UC's internal documents relating to the rationale for the Merger are informative as to the likely competitive effects of the Merger. Details of these documents are set out in Chapter 3 and Appendix B.

- 7.81 In these documents, UC highlights the closeness of competition between UC and 3G, stating that the object of the Merger is ‘to acquire our closest competitor’ and noting that almost all 3G customers also have accounts with UC, referring to the ‘current lack of strong competition’ to UC and 3G.
- 7.82 UC also discusses the expected effects of the Merger, noting that:
- (a) The Merger would give UC an [X]% share among wholesalers with revenues over [X] million in the UK IAM.
 - (b) ‘The acquisition would limit customer’s choice of supplier due to the lack of availability of the majority of UC parts on a next day service from any other supplier.’
 - (c) UC’s prices are currently bound by the risk that 3G will not increase its prices in line with UC, and the Merger would remove this constraint, as ‘an alternative cheaper product will not be available to the customer’, resulting in margin gains.
 - (d) ‘UC are currently under pressure to match Alpha’s [ie 3G’s] [X], costing the business [X]. The Merger would remove this constraint, resulting in lower customer rebate charges and significant margin gains.
 - (e) The Merger would lead to ‘strengthening of UC’s dominant position in the UK IAM’, reducing the likelihood of a viable competitor establishing a foothold in the market.¹⁷⁵ Elsewhere in this document UC notes that its post-Merger dominance would be time-limited, but it would take 3 to 4 years for a valid alternative supplier to establish itself.
 - (f) [X].
- 7.83 A further UC document sets out that post-Merger prices are expected to increase ‘in excess of [X], and that combined rebate payments can be [X].
- 7.84 We also considered references to other competitors in UC’s merger rationale and strategy documents. Aside from 3G, TTC, Amipart and DSS are the suppliers most frequently mentioned in the documents,¹⁷⁶ while some documents also refer to CV Logix, Sampa, Inter Cars. References to other wholesalers and OES parts manufacturers are rare.
- 7.85 One UC document refers to CV Logix as its ‘competitor’ [X]. Another document lists CV Logix, alongside Sampa and TTC, [X].[X]. UC also states

¹⁷⁵ The document notes that this would be due to the significant costs of establishing a foothold for a viable competitor.

¹⁷⁶ Also, they are the only companies mentioned in the ‘Main Competitor Review’.

that acquiring TTC stock could deny [X] the opportunity to '[X] gaining a significant presence in the UK aftermarket'.

Customer and supplier views on the Merger

7.86 In this section, we consider views expressed to us by the Parties' customers and suppliers about closeness of competition.

Customer views on the Merger

7.87 We sent questionnaires to 341 customers of UC, 3G or both. We received 40 responses, representing 86 of the customers we contacted,¹⁷⁷ and the customers from whom we received a response accounted for 30% of UC's sales and 28% of 3G's sales. Further details of our approach and responses are in Appendix C.

7.88 Six other customers also commented on the Merger and had a similar range of views as those who responded to our questionnaire, with most expressing some concern.

7.89 We begin by setting out customer views on the Merger, including concerns about a lack of alternatives to the Parties, and more general comments about a reduction in competition arising from the Merger. Next we consider other comments relating to closeness of competition between the Parties.

7.90 We asked if customers had any views on the Merger.¹⁷⁸ Of the 40 customers who submitted a written response to our questionnaire:

(a) 22 said that the Merger would reduce competition, accounting for four fifths (22 out of 28) of customers who expressed a view.

(b) One customer had a positive view of the Merger.¹⁷⁹

(c) Four customers had a mixed view, highlighting some potential concerns but also some possible mitigating factors or benefits.

(d) The remaining questionnaire respondents did not express a view on the Merger.

¹⁷⁷ Some responses represented several different branches which we had contacted separately.

¹⁷⁸ Third party questionnaire, Question 21: If you have any other views or comments on the merger and its potential impact on the IAM, provide them below.

¹⁷⁹ TBF Thompson. Another respondent was in favour of the Merger but as a competitor, rather than a customer, because it expected to benefit from an increase in prices [X].

Lack of alternatives to the Merged Entity

- 7.91 Some respondents to our questionnaire emphasised the lack of suitable alternatives to UC and 3G in the market, in particular because other providers did not offer the same 'full range' or breadth of product choice:
- (a) 'The main disadvantage is that there will only be one CV parts complete range supplier in the UK and so the previous advantage of competition will be lost.' [Truck and Trailer Equipment]
 - (b) 'The 2 companies have provided us as a business with a good alternative to one another, I'm not sure where we may be able to find this in the near future.' [Partservice]
 - (c) 'A merger would limit the level of competition at the wholesale level and would give the new entity a huge amount of power in the market, with minimal viable competition. It would give factors in the IAM limited choice on where they can go for their wide range private label truck and trailer products.' [Picksons]
 - (d) [REDACTED]
 - (e) 'If this goes ahead you'll only effectively have one supplier of this type in the market place as Unipart TTC has since ceased trading. There are other suppliers but none with the breadth of product choice especially on the trailer side of the market.' [AC Commercials]
- 7.92 Two other customers who expressed concerns to us by email noted that the Parties offered a one stop shop, and the alternatives would be difficult (doing 10 to 12 orders a day [North Lincs Comp Ltd], or 'running around going to different locations to get products' [CPS Limited]). North Lincs also noted that most manufacturers prefer not to supply motor factors directly, and many do not keep stock in the UK.

Reduction in competition

- 7.93 Other customers responded to our questionnaire in more general terms with concerns about the lack of competition following the Merger.
- (a) 'This merger will damage the market and our business in my opinion. There would be little competition (if any) and therefore the commitment to the customer would not need to be a priority. The holding company would basically be able to do what they want when they want with pricing and service.' [Pro Parts (Kent)]

- (b) 'It is of real concern that a merger reduces our ability to make sure pricing is kept competitive, also rebate I feel would be affected which is important, also competition is lost leaving a company I feel that has full market [and will be] very complacent.' [Benella]
- (c) 'Increases prices, less choice, less availability, reduced quality, poorer customer services, [✂], company too powerful to negotiate with.' [Bison]
- (d) 'I believe that the merger would not be a good thing and would ultimately lead to less options of where we can purchase and lessen our ability to negotiate improved terms.' [Fleet components]
- (e) 'Worried the merger could increase prices across the complete market place.' [Truckwise]
- (f) 'The merger significantly reduces the competition when purchasing.' [Wrightpart]
- (g) 'They would have to push prices up as they would have too much of market share as they also supply to the OEMs for the aftermarket.' [Anglesey Commercial Spares]
- (h) 'If Universal components and 3G merge then there will be little or no competition in the market place.' [Fleet Factors]

Exit of TTC

7.94 Some customers were especially concerned about the Merger occurring following the exit of TTC from the market, and made specific comments referring to the similarity of product ranges between TTC and the Parties, and the 'capacity to supply' of TTC and the Parties, thereby implying that they viewed TTC as having been the only alternative to UC and 3G:

- (a) '1 year ago I would have said no real impact, but with TTC now ceased trading as of June 12th 2020 I can see no other supplier currently available to me to compete with the if successful merger, unless 3G start up again under a different name much like they did around 10 years ago with PBL – Peter Beaumont LTD'. [K&S Commercial Components]
- (b) 'There will not be enough competition in the aftermarket supply chain. TTC have gone. There are now only UC and 3G which is not enough anyway.' [✂]

- (c) 'The bulk of our purchases are made through TTC, UC and 3G. TTC have now ceased trading, therefore a merger between 3G and UC would leave us with a single supplier.' [Complete Commercial Components]
- (d) 'With now the closure of TTC that now leaves the only two suppliers competing doing 95% similar product ranges which is 3G& UC which over time if left to merge will increase & fix pricing if not closing one of them. In my opinion would be bad for not only us but the end user.' [Wessex Truck and Trailer Supplies]
- (e) 'Lack of variety in the marketplace, no alternative suppliers with the capacity to supply now that TTC have withdrawn from the market.' [Southern Components Group Limited]

7.95 Others did not specifically refer to TTC as the only alternative to the Parties, but mentioned TTC in expressing concerns about the lack of competition following the Merger:

- (a) 'Competition will be vastly reduced. Especially after the closure of TTC. Will NOT be good for the industry' [NorthEast Truck Parts]
- (b) 'They will work together to push prices up as we won't be able to buy elsewhere now TTC have closed too.' [AllSpares]
- (c) 'A big impact especially since the demise of TTC as the competition is needed to keep prices down and stock level availability.' [Eurotrucks]

Customers who were not concerned

7.96 Three customers expected to be in a strong position following the Merger, because of their importance to both Parties.

- (a) Diagraph, the Parties' biggest customer, told us that the Merger was likely to be positive for its business. This was because it would be spending £3.5 million with the combined entity (rather than £1.5 million to £2 million with UC and 3G separately).
- (b) [REDACTED]
- (c) 'For our own part, as a customer of both we will be more important to them as combined as they will have more to lose if they upset us.' [LCP Automotive].

Closeness of competition between the Parties

7.97 Generally, customers viewed the Parties as very close competitors, notably in terms of their ranges.

- (a) Allspares told us that UC and 3G have a vast range of parts from air brakes to exhausts and cover most of the products from other suppliers to Allspares in some part of their product range. Allspares explained that it could switch suppliers away from UC and 3G in some products but only TTC had a similar range to UC and 3G. UC and 3G did not have the variety of stock of KnorrBremse and Wabco, but they would have the fast moving parts that they can buy in bulk and sell in the aftermarket.
- (b) Linings and Hoses explained that 3G started as an alternative to UC, run by ex-UC management who knew the business well and had the same connections with suppliers for own-branded parts. 3G had expanded their range successfully over the last four or five years to offer a broadly comparable range of products to that of UC.

Competition from other providers

7.98 Some hoped that other competitors, notably CV Logix and Sampa, could expand to replace the competitive constraint lost from the Merger, but some noted that this was uncertain or would only happen following price increases.

- (a) Digraph said that, typically, UC, 3G and Winnards will sell the same products – however, Winnard’s staff have a better technical expertise than staff at UC and 3G. Digraph uses these three companies - rather than one – to help keep it competitive, manage exposure, and help with the cashflow.
- (b) Allspares said that CV Logix has started bringing its own range of parts in, which will compete against UC/3G’s PL products. CV Logix appears to be attacking UC’s customers and will probably be a serious competitor to the merged entity. If the Merger results in UC/3G’s prices rising, there will be room for someone to enter and make money.
- (c) EMS-FP&S said that CV Logix would likely become a large scale wholesaler to the aftermarket in the next few years. But EMS-FP&S did not want to give business to a company that also competes at EMS-FP&S’ level of the supply chain.
- (d) Picksons said Sampa could be an alternative supplier to UC and 3G for some customers and products, but it currently is just ‘a drop in the ocean’ and would need to invest heavily in stock, range, distribution and

personnel. In Pickson's view, Alliance Automotive - with CV Logix - is the only other viable option to become like UC and 3G, and that CV Logix could easily expand its range. However, Picksons acknowledged that CV Logix is owned by a buying group with the primary goal of supplying their members, so are not seen as a viable option by many motor factors. Some motor factors see CV Logix as their 'competition' as it is owned by a group of motor factors.

Customer views expressed to 3G employees

7.99 3G submitted internal emails reflecting customer views expressed to its employees.¹⁸⁰ A general theme is that of customers having negative views of UC compared to 3G. However, these emails also provide some evidence relating to closeness of competition between the Parties. On the one hand, some express customer concerns about being in a weaker negotiating position (because of a reduction in alternative suppliers). On the other hand, some customers were reported as considering switching some of their business to smaller providers.

(a) [REDACTED]

(b) [REDACTED].'

(c) [REDACTED].

Suppliers' views on the Merger

7.100 Wide range wholesalers in general indicated that the Parties are alternatives to each other. Four out of nine expected the Merger would reduce competition. Of the others, one thought the Merger might provide more competition to CV Logix, one believed the market to be competitive and one said that the Parties' strength is in the trailer business, which is the least congested sector. The remaining two did not provide clear views on the Merger, although one of these saw the Parties as close competitors.

7.101 Five out of eight narrow range wholesalers thought that the impact of the Merger might be negative. Four of these expected a reduction in competition while the fifth was concerned that it would not be able to compete with the Merged Entity. Two narrow range wholesalers did not have any concerns related to the Merger and said that there is a lot of competition in the

¹⁸⁰ We note that these emails are summaries by 3G employees of customer concerns, rather than direct evidence from customers.

market.¹⁸¹ Two suggested that there could be some negative effects but that these would be mitigated by customers switching some supply to specialist companies.

- 7.102 OES parts manufacturers had a range of views: three of 13 who expressed a view expected the Merger would reduce choice (although one of these said customers were price sensitive and would consider other options), five expected no impact on competition as there were many alternatives, and the remaining five did not express a clear view in either direction.

Summary of customer and supplier views on the Merger

- 7.103 In summary, among customers who expressed a view on the Merger in response to our questionnaire, the large majority expressed concerns that the Merger would reduce competition. Many of these thought that the Parties were the only credible alternatives to one another, particularly since TTC's exit from the market. Comments to 3G by customers appear to have reflected similar concerns, and also a concern that UC did not offer the same quality and service as 3G.

- 7.104 Other providers expressed a range of views in response to our questionnaire, with just over half of wide range and narrow range wholesalers, and some OES parts manufacturers, expecting that the Merger would reduce competition.

Provisional conclusion on closeness of competition

- 7.105 In summary, the evidence both of influences on the Parties' pricing decisions, and of customer switching and diversion, consistently points towards the Parties being one another's closest competitors. This is further supported by UC's Merger rationale documents and third party views on the Merger. Therefore, on the basis of the evidence set out above, taken in the round, our provisional view is that the Parties are one another's closest competitors.

Remaining competitive constraints

- 7.106 In this section we consider the strength of the remaining competitive constraints on the Parties. We first consider the constraint from other suppliers within the market, before considering the constraint from narrow

¹⁸¹ Nationwide and Automint.

range wholesalers, OES parts manufacturers, ‘all makes’ suppliers and the AAM.

Other wide range wholesalers

7.107 We first consider the extent to which other wide range wholesalers will likely be a constraint on the Parties. The Parties told us that they ‘already face fierce competition from a range of new entrants – in particular CV Logix, Sampa and Inter Cars [...] – who are able to offer their customers prices that are already lower than the Parties’ own prices.’ In view of this, we begin by considering the degree of competitive constraint on the Parties from each of CV Logix, Sampa and Inter Cars. We then briefly describe other wide range wholesalers in the market and consider the overall constraint on the Parties from wide range wholesalers.

CV Logix

7.108 CV Logix is owned by Alliance Automotive Group (AAG). AAG entered the UK market in 1997 and opened a dedicated commercial vehicles distribution centre named CV Logix in March 2017.¹⁸² CV Logix told us that AAG acquired 10 to 12 commercial vehicle motor factors in the UK. The current revenue of UK motor factors owned by AAG is around £[REDACTED] million. Only ([REDACTED]%) of its revenues are generated from sales outside of AAG’s network and affiliated members. It offers around 17,000 SKUs across a wide range of product groups with next day delivery (which represents [REDACTED]% of sales).

7.109 CV Logix told us it believed that it has a wider range of truck products, while UC and 3G have a wider range of trailer parts, but CV Logix and 3G and UC sell a lot of the same products. It thought that prices offered, rebates, technical services (including warranties and certificates) are comparable to UC’s and 3G’s, while quality of products and customer advice is of higher quality compared to UC and 3G. CV Logix rated both UC and 3G as a very close competitor with a score of 5 out of 5 (indicating maximum closeness).

Parties’ submissions

7.110 The Parties said that CV Logix has established itself as a key player since entering the wholesale market in 2017, and that it had claimed to have a wider range and better quality than the Parties, with comparable prices, rebates and technical services. The Parties also noted that, based on our customer

¹⁸² See [GroupAuto website](#) (assessed on 19 August 2020).

questionnaire, more customers place very frequent orders from CV Logix than from other suppliers, and one competitor¹⁸³ (Majorsell) thought that the Merger would create a counterweight to CV Logix.

7.111 The Parties submitted that CV Logix exerts a strong competitive constraint on UC and 3G, and that this was illustrated by two internal UC emails. The first of these refers to the need to sell a part at a particular price to compete with CV Logix and to a 'leakage quantity' for this part. The second notes a 'lost sale to alliance group'. The Parties also said that UC's internal documents cited CV Logix as a 'challenge', a 'competitor' and a 'threat', and said that CV Logix 'figures prominently' in UC's win/loss analysis.

Our assessment

7.112 As set out in Figure 7.2, we estimate that CV Logix accounts for around [X]% of supply of CVT parts to motor factors by wide range wholesalers, excluding TTC and CV Logix's own intra-group sales. If intra-group sales are included, [X].

7.113 CV Logix has at most a limited presence in the Parties' internal documents:

- (a) As illustrated in Figure 7.3, CV Logix receives very few mentions in UC's 2019 benchmarking, even compared to wide range wholesalers with smaller market shares, such as [X] and [X], and to several individual specialist wholesalers, such as [X].
- (b) It accounts for only [X]% of mentions in UC's internal emails discussing pricing (see Figure 7.5), although it is more prominent in 3G's internal emails discussing pricing with [X]% of mentions (see Figure 7.6). It is mentioned in fewer than [X]% of UC's emails negotiating pricing (see Figure 7.6) and [X]% of 3G's emails and webchats negotiating pricing (see Figure 7.8).
- (c) CV Logix was slightly more prominent in UC's CRM database in January to June 2019, being mentioned in around [X]% of entries (see Figure 7.9).
- (d) However, it was only mentioned in around [X]% of reasons recorded by UC for a price reduction, compared to almost [X]% for 3G, and was again behind [X] and [X] (and others, see Figure 7.11).

¹⁸³ The Parties referred to Majorsell as a customer in their response to Working Papers.

(e) It accounted for around [REDACTED]% of mentions in UC's sales meeting minutes, behind [REDACTED] but comparable to [REDACTED] (see Figure 7.15).

(f) CV Logix accounted for around [REDACTED] ([REDACTED]) of UC's leakages that were identified as due to switching to a competitor (see Table 7.6).

7.114 Our diversion analysis estimates diversion to CV Logix below [REDACTED]% from both UC and 3G (see Figure 7.16 and 7.17).

7.115 While CV Logix is identified in some Merger rationale documents, it is mentioned less frequently than several other competitors (paragraph 7.84 and 7.85).

7.116 As discussed in paragraph 7.98, some customers mentioned CV Logix as a possible alternative to the Parties. However, in general they did not appear to see CV Logix as a strong constraint on the Parties at present, but rather a provider with scope for future expansion. In addition, two said that the fact of CV Logix being owned by a buying group meant that some motor factors would see it as their competition.

7.117 Taking the above evidence in the round, our view is that there is clearly some competitive interaction between CV Logix and the Parties and that, following TTC's exit, it may be the Parties' next-closest competitor after one another. However, the evidence does not support a view that CV Logix has consistently been able to beat the Parties on price or that it imposes a strong competitive constraint on the Parties. In addition, its ownership by a buying group may limit its attractiveness to motor factors which are not part of that buying group. Our view is that CV Logix at present exerts a moderate competitive constraint on the Parties. In Chapter 8 we consider the extent to which CV Logix may expand in future.

Inter Cars

7.118 Inter Cars opened its UK operations in April 2019 and is entirely supplied from Poland.¹⁸⁴ Inter Cars supplies [REDACTED], primarily to large motor factors (80%) and other wholesalers (20%) although Inter Cars in Poland has a wider range. Inter Cars told us that it has very limited resources in the UK, with fewer than five employees, [REDACTED].

¹⁸⁴ Inter Cars established its UK office in April 2019. While it has a small warehouse in the UK, this is used for stocking some small automotive parts; Inter Cars does not have a warehouse to stock CVL parts. Prior to opening its UK office, Inter Cars supplied the UK IAM directly from its Poland warehouse.

7.119 Inter Cars said it was cheaper than the Parties but had a week-long lead time for deliveries, [REDACTED].[REDACTED].

7.120 [REDACTED].

Parties' submissions

7.121 The Parties submitted that Inter Cars was able to offer very competitive prices, claimed to have the largest range of CVT parts (both PL and OEM/OES) in Europe and had introduced a sophisticated webshop. They said that most UK motor factor customers have an account with Inter Cars.

7.122 The Parties said that [REDACTED].

Our assessment

7.123 As set out in Table 7.1, we estimate that Inter Cars accounts for around [REDACTED] [0 - 5]% of supply of CVT parts by wide range wholesalers, excluding TTC and CV Logix' intra-group sales.

7.124 Our analysis of the Parties' internal documents, set out above, provides little evidence of competition from Inter Cars.

(a) In most cases, we did not identify a significant number of mentions of Inter Cars.

(b) Inter Cars accounted for [REDACTED]% of competitor mentions in UC's internal emails discussing pricing (Figure 7.5) and in [REDACTED]% of those of 3G (Figure 7.6).

(c) It was mentioned in fewer than [REDACTED]% of reasons recorded by UC for a price reduction (Figure 7.11).

(d) Inter Cars accounted for around [REDACTED]% of mentions in UC's sales meeting minutes (Figure 7.15).

7.125 We have identified two mentions of Inter Cars in the Parties' strategy documents (paragraph 7.85) including the comment noted by the Parties in paragraph 7.122 above. Inter Cars is also mentioned in 3G's reports of customer views as an alternative to the Parties (paragraph 7.99).

7.126 Our diversion analysis did not identify any significant diversion to Inter Cars from either UC or 3G (Figure 7.16 and 7.17).

7.127 In our view there is limited evidence of competitive interaction between Inter Cars and the Parties. The evidence does not support a view that Inter Cars

has consistently been able to beat the Parties on price or that it imposes a strong competitive constraint on the Parties. Its current inability to offer next day delivery is likely to be a significant limitation on how much it can constrain the Parties. Our view is therefore that Inter Cars at present exerts a limited competitive constraint on the Parties. In Chapter 8 we consider the extent to which Inter Cars may expand in future.

Sampa

7.128 Sampa is a manufacturer [X] with a range of [X] products. About [X] Sampa's 2019 sales revenues were to [X] and [X] were to [X]. Sampa offers next day delivery (which represents [X] of its sales.

7.129 [X]. Some competitors saw Sampa as having a negative reputation for quality.

7.130 Sampa opened a UK warehouse in February 2020, [X].

7.131 [X].

Parties' submissions

7.132 The Parties submitted that, as a well-established European wholesaler, Sampa was able to develop new products more quickly and cheaply than the Parties. They said that, following the opening of its Manchester warehouse in early 2020, Sampa is now competing directly and aggressively for the Parties' customers – including by offering short delivery times and low prices, and [X].

7.133 The Parties provided four examples of emails from its representatives reporting that they had been outbid on price by Sampa, three dated 13 to 17 February 2020 and one from July 2020. They also provided an emailed brochure from Sampa advertising nine Air Springs products and submitted that the prices shown were lower than those of UC and 3G.

Our assessment

7.134 As set out in Figure 7.1, we estimate that Sampa accounts for less than [X] [0 - 5]% of supply of CVT parts by wide range wholesalers, excluding TTC and CV Logix' own intra-group sales.

7.135 Sampa has a very limited presence in the Parties' internal documents:

(a) As illustrated in Figure 7.3 Sampa is not mentioned in UC's 2019 benchmarking.

- (b) It accounts for [REDACTED]% of mentions in UC's and less than [REDACTED]% in 3G's internal emails discussing pricing (see Figure 7.5 and Figure 7.6), and UC's and 3G's external emails discussing pricing (see Figure 7.6 and Figure 7.7).
- (c) Sampa was mentioned in fewer than [REDACTED]% of entries in UC's CRM database in January to June 2019 (Figure 7.9).
- (d) It was mentioned in around [REDACTED]% of reasons recorded by UC for a price reduction (see Figure 7.11).
- (e) It accounted for fewer than [REDACTED]% of mentions in UC's sales meeting minutes, behind [REDACTED] but comparable to [REDACTED] (see Figure 7.15).

7.136 We recognise that Sampa's importance as a competitor may have increased since it opened a UK warehouse in February 2020, and this will not be reflected in the Parties' internal documents covering earlier periods. In addition, we note that Sampa is identified in some UC Merger rationale and strategy documents (paragraph 7.85).

7.137 On the other hand, the Parties have presented only very limited evidence of the competition they face from Sampa – namely four internal emails and a brochure. Each of the emails refers to one instance of losing the sale of an individual part or a small number of parts to a single customer (in the context of a market in which the Parties sell thousands of parts to hundreds of customers).¹⁸⁵

7.138 As regards the Parties' submission that Sampa is undercutting them on prices, we note that:

- (a) It is not clear whether the Air Springs brochure was directed at wholesalers, motor factors, or both. As noted above, around [REDACTED] Sampa's sales are to wholesalers, including the Parties. We would not necessarily expect it to offer wholesale prices which were the same as the Parties own prices to motor factors.
- (b) The products offered in the Air Springs brochure appear to be PL (ie they are manufactured by Sampa). Whether prices in the emails are for PL parts is not stated (although PL parts account for around [REDACTED]% of UC's sales). Different PL versions of the same part may not be directly comparable in quality, and customers may make a price/quality trade-off in deciding which to purchase. A possible example of this is that, in the

¹⁸⁵ The July email states '[REDACTED]'. It is therefore unclear whether the sale was lost to Sampa or to [REDACTED].

Parties' price comparison based on the Air Springs brochure, the price difference between Sampa and UC [REDACTED], the price difference between UC and 3G for the same part.

- 7.139 Our diversion analysis estimates are based on responses to our third party questionnaire to customers, which were received in August to September 2020, and as such may be seen as a reflection of recent competition in the market. We estimated diversion to Sampa around [REDACTED]% from UC and [REDACTED]% from 3G (Figure 7.16 and Figure 7.17).
- 7.140 Taking this evidence in the round, in our view there is limited evidence of competitive interaction between Sampa and the Parties. The evidence does not support a view that Sampa has consistently beaten the Parties on prices to motor factors or that it exerts a material competitive constraint on the Parties. Our view is that Sampa at present exerts a limited competitive constraint on the Parties. In Chapter 8 we consider the extent to which Sampa may expand in future.

Additional wide range wholesalers

- 7.141 In the following, we consider the competitive offers from additional wide range wholesalers (listed alphabetically) and then provide our assessment of them.

Amipart

- 7.142 Amipart has a range of 2,500 part numbers, and largely sells PL parts to motor factors, offering next day delivery. Amipart said it served similar customers to the Parties, who were its biggest competitors, and offered similar quality of products, customer advice and technical services (including Warranties, certificates). However, it has a materially smaller range than the Parties.
- 7.143 Amipart is relatively prominent in some of the Parties' internal documents, but less so in others:
- (a) UC benchmarks [REDACTED]% of product types against Amipart (Figure 7.3). It accounts for [REDACTED]% of competitor mentions in UC internal pricing discussions (Figure 7.5) but only [REDACTED]% of mentions in UC customer negotiations (Figure 7.7). It accounts for [REDACTED]% of competitor mentions in 3G internal pricing discussions (Figure 7.6) and [REDACTED]% of mentions in 3G customer negotiations (Figure 7.8).
 - (b) Amipart accounts for [REDACTED]% of competitor mentions by UC in reasons for a price reduction (Figure 7.11). It also accounts for around [REDACTED]% of

mentions in UC's sales meeting minutes (Figure 7.15). However, it accounts for [X] of the [X] leakages to competitors identified by UC (shown in Figure 7.12). Amipart is also mentioned in UC's merger rationale documents (paragraph 7.82).

- 7.144 While these internal documents show some awareness among the Parties of competition from Amipart, this should be considered in the context of its small market share ([X] [0 - 5]%).

Diesel Technic

- 7.145 Diesel Technic has a range of around [X]. Diesel Technic generates about 60% of its revenues from motor factors and the rest from wholesalers, and offers free next day delivery. Diesel Technic did not include 3G or UC among its main competitors in the questionnaire.
- 7.146 Diesel Technic told us that it saw 3G as more of a competitor than UC, because UC's products were lower price and quality, but all three served the same customer base.
- 7.147 UC benchmarks [X]% of products against Diesel Technic (Figure 7.12). However apart from this Diesel Technic is mentioned only infrequently in the Parties' internal documents.

DSS

- 7.148 DSS is a specialist wholesaler for Scania, Volvo, DAF and Renault Vehicle, and most of its sales are next day delivery (which represents [X]% of its sales).
- 7.149 DSS said it serves the same customers as UC and 3G and has similar prices and technical services (including warranties, certificates), but a smaller range as it does not supply trailer parts. DSS said that it offers better quality of products and better customer advice compared to UC and 3G and did not regard them as close competitors. The Parties [X] and it is mentioned only infrequently in their internal documents.

Ferdinand Bilstein UK Ltd

- 7.150 Ferdinand Bilstein UK Ltd (Febi Truck) primarily supplies motor factors and offers free next day delivery. Febi submitted that there is 'consistent work to expand our range,' in line with the 'strategic aim to be considered a 'one stop shop' for truck and trailer parts'. However, Febi did not provide any further

specific details. The Parties [X] and it is mentioned only infrequently in their internal documents.

Imexpart

- 7.151 Imexpart offers ‘all “hard parts” from bumper to bumper’ (around [X] SKUs) and engine parts, supplying end users, garages, motor factors and engine re-conditioners, etc. Imexpart offers free next day delivery for order values of £150 or higher.
- 7.152 Imexpart submitted that its range on common products compares well to the Parties, and that it is better than the Parties on less common/hard to source parts. Imexpart considered that both UC and 3G work on smaller margins and may offer better rebates, but considered that UC’s product quality is lower.¹⁸⁶ Imexpart also considered that its technical services (including warranties, certificates) and customer advice are comparable to those of UC and 3G. Imexpart rated UC with a 5 and 3G with a 2 when scoring competitors. The Parties [X] and it is mentioned only infrequently in their internal documents.

Majorsell

- 7.153 Majorsell offers approximately 5,000 truck and bus parts, focused on airbrake and caliper parts. Most sales are to motor factors, with the same customers served as UC and 3G. Majorsell offers free next day delivery for order values higher than £100.
- 7.154 Majorsell told us that it is more specialized in airbrake and caliper parts while UC’s and 3G’s product range is more general (with 3G specialising in lighting and electrical). Majorsell considered that its PL parts are higher quality than UC’s and that it is more customer focused. Majorsell described UC and CV Logix as ‘like a huge Argos for truck parts’. Majorsell rated UC with a 4 and 3G with a 3 within its main competitors. The Parties [X] and it is mentioned only infrequently in their internal documents.

Our assessment

- 7.155 Each of the wide-range wholesalers described above competes with the Parties to some degree, with several seeing UC, 3G or both Parties, as close competitors. Most offer next day delivery and see themselves as serving a similar customer base to the Parties.

¹⁸⁶ Imexpart did not comment on 3G’s product quality.

- 7.156 While some have a similar range to the Parties, others (Amipart and Majorsell) have smaller ranges. Some considered themselves to offer higher quality or service than the Parties (DSS, Amipart, Majorsell) or than UC (Imexpart, Diesel Technic). Imexpart saw the Parties as operating on lower margins, while Diesel Technic saw UC as offering lower-priced parts.
- 7.157 In view of the evidence set out above, our view is that each of these individual wide range wholesalers above exerts, at best, only a very limited competitive constraint on the wide range wholesale supply of CVT parts by the Parties.
- 7.158 Our provisional view is that other wide range wholesalers, including CV Logix, Sampa and Inter Cars, collectively exert only a limited competitive constraint on the Parties. This is consistent with their current market shares relative to the Parties (see Table 7.1), and to the evidence from customers in relation to the impact of the Merger.

Narrow range wholesalers

- 7.159 We have also assessed the competitive constraint on the Parties from narrow range wholesalers. We have classified wholesalers as ‘narrow range’ if they supply fewer than 20 UC product fields.¹⁸⁷

Parties’ views

- 7.160 The Parties told us that ‘when setting prices for specific product categories, the Parties take account of the prices charged by all significant competitors that supply CVT parts to motor factors, including those with a greater focus on particular component categories, as well as OES suppliers that supply directly to motor factors’. [X].¹⁸⁸
- 7.161 The Parties said that ‘wholesalers that focus on a smaller number of CVT part categories will typically carry a very extensive number of lines within their core range(s), while also benefitting from a reputation for expertise and greater technical service and support levels’.¹⁸⁹

Views of narrow range wholesalers

- 7.162 In general, narrow range wholesalers saw themselves as distinct from the Parties, but as having a degree of competitive interaction with them:

¹⁸⁷ See Appendix D, Table D2 for list of the product fields.

¹⁸⁸ [Parties response to Phase 1 Decision](#), paragraphs 4.10 and 4.11.

¹⁸⁹ [Parties response to Phase 1 Decision](#), paragraph 4.12.

- (a) Automint said that the Parties 'have a lot of competition amongst parts of their range'. It described wide range wholesalers as a 'one stop shop' for motor factors. It rated Granning as its closest competitor, followed by Sampa (which had a focus on Automint's product groups), and then UC and 3G rated 3 out of 5 on closeness, noting 'all our range available from them. Geographically close'. It said that the more 'core' a product was to Automint, the more price-competitive it was with the Parties.
- (b) Granning, which has acquired J4, told us that it saw itself as having a different strategy to the Parties. It said that customers go to Granning for its expertise whilst also going to bigger wholesalers to purchase the various remaining products they need.
- (c) Juratek scored Winnard and UC as 4 out of 5 on closeness of competition.
- (d) Winnard told us that 'All makes' suppliers were its most significant competitors. It listed UC and 3G as sixth and seventh among its closest competitors with a score of 3 out of 5 for closeness of competition, noting 'significant overlap of our product range', with its closest competitors being 'OEM', Juratek, and TMD Friction (all scoring 5). Winnard commented that 'All our products are safety critical. We have in house engineering. UC sell a wide range of products that are not all safety critical'.

7.163 Some narrow range wholesalers noted that UC and 3G offer a wider range of products in general but have a smaller range within the particular product groups offered by these wholesalers. Examples are Winnard in braking components, Durite and Guardian in electrical parts, Dinex in exhaust solutions, and Juratek in braking and steering and suspension.

7.164 The product ranges of EBS, Granning, Borg & Beck and Automint¹⁹⁰ are wider (ie covering more product categories) than the more specialised wholesalers, but still much narrower than the range offered by the wide range wholesalers such as UC and 3G. Some but not all have greater depth of range within certain product categories: Automint and Borg & Beck submitted that the Parties offer all of their range¹⁹¹ whereas Granning considered itself to have a narrower range in general, but to sell more products within their offered product categories, and considered itself to be a leader in Airsprings , CV springs and truck body panels . EBS (which specialises in air brake and associated components) considered that it competes with UC and 3G on fast-

¹⁹⁰ [§] of Automint's revenues came from the steering and suspension product group.

¹⁹¹ Automint said that the Parties offer all product groups in its range but not necessarily every SKU.

moving parts (about 10% of EBS range), but not on the long tail of specialist products.

- 7.165 Some narrow range wholesaler responses indicated that they are not close competitors to the Parties because they focus on different parts of the IAM supply chain or offer different product lines. For example, Nationwide told us that it had only a small crossover of products with the Parties, and that only about [REDACTED]% of its sales are to motor factors, with [REDACTED]% of sales going to independent garages/fleet operators and similar customers. Roadlink submitted that it is more involved in the remanufacture of brake shoes and callipers than in distribution, [REDACTED]. Similarly, Fleetparts, a remanufacturer of callipers, submitted that the cross-over of products supplied between Fleetparts and UC and 3G is low because the Parties do not sell remanufactured callipers, which is the main product line for Fleetparts.

Parties' internal documents

- 7.166 UC's 2019 'Master Price Review' contains equivalent prices for [REDACTED] (see paragraph 7.25). Its August 2019 Price Review guidelines also mention several narrow range wholesalers.
- 7.167 However only [REDACTED]% of its products, accounting for [REDACTED]% of sales, are benchmarked against one or more narrow range wholesalers (paragraphs 7.32 and 7.33). J4 is benchmarked against around [REDACTED]% of products, Juratex, Borg & Beck, Dinex and Granning against between [REDACTED]% and [REDACTED]% of products, and five other narrow range wholesalers are benchmarked against [REDACTED]% of products or fewer (Figure 7.3). Mentions of narrow range wholesalers tend to be concentrated in three categories – steering and suspension, body, and braking (Table 7.4).
- 7.168 Narrow range wholesalers account for [REDACTED]% of mentions in UC's CRM database (paragraph 7.54), and [REDACTED]% of mentions as reasons given for a price reduction (paragraph 7.54). In addition, they account for [REDACTED]% of identified switches to a competitor in UC's CRM database ([REDACTED] out of [REDACTED]) (Figure 7.9), more than 3G with [REDACTED]% ([REDACTED] out of [REDACTED]).

Diversion

- 7.169 As set out in paragraph 7.74, our estimates of diversion from the Parties to narrow range wholesalers are limited ([REDACTED] [10 - 15]% in each case) compared to diversion between the Parties ([REDACTED] [40 - 50]% from UC to 3G and [REDACTED] [50 - 60]% from 3G to UC).

Customer views

- 7.170 Customers we spoke to, or who responded to our questionnaire, did not indicate that they saw narrow range wholesalers, individually or collectively, as imposing a competitive constraint on the Parties (with the exception of Digraph which mentioned Winnard as a competitor to the Parties – see paragraph 7.98).
- 7.171 Rather, customers were concerned about the lack of suitable alternatives to the Parties, or more generally about a reduction in competition following the Merger (paragraphs 7.90 to 7.95).

Our assessment

- 7.172 As set out above, narrow range wholesalers collectively account for a substantial number of mentions of competitors in the Parties' internal documents. In the case of leakages, narrow range wholesalers combined accounted for slightly more mentions than 3G. However, on all other measures 3G appears to be a more important competitor to UC than all narrow range wholesalers combined. In particular, 3G is mentioned twice as often as narrow range wholesalers as the reason for a price reduction by UC.
- 7.173 In addition, our estimates of diversion show that diversion from the Parties to narrow range wholesalers is low, and much lower than their diversion to one another.
- 7.174 The evidence provided to us by customers does not support a view that they saw narrow range wholesalers as a strong competitive constraint to the Parties. Rather they were concerned about the lack of alternatives following the Merger. We would not expect customers who saw narrow range wholesalers as a good alternative to the Parties to have such concerns. These comments are consistent with customers viewing the 'one stop shop' offered by the Parties as important (see Chapter 5).
- 7.175 Our provisional view is therefore that narrow range wholesalers, in combination, exert only a limited competitive constraint on the Parties.

OES parts manufacturers

- 7.176 As discussed in Chapter 2, many OES parts manufacturers serve motor factors directly, with next day delivery and comparable price and quality to the Parties. However, OES parts manufacturers are generally focused on a limited range of products, with all except Wabco and Hella selling fewer than ten product fields in three or fewer categories (see Figure 6.6).

Parties' views

7.177 The Parties submitted that OES parts manufacturers were 'a very significant direct competitive constraint on the Parties'.¹⁹² They said that while 'certain OES parts manufacturers will require a higher minimum order value to qualify for free delivery than the Parties (TVS has a minimum order value of £125), this is not the case for all OES suppliers'.¹⁹³ They provided a table showing the current minimum order volume for free carriage of some of the largest OES parts manufacturers, with minimum orders ranging from zero to £500, with seven at £150 or lower, and four at £250 or £500, and noting that the major OES parts manufacturers supply to the wholesale level and also to motor factors (and in one case to CVT fleets).¹⁹⁴

7.178 The Parties further submitted that often there is no physical or functional difference between the PL, OES and OEM versions of a particular component, that purchasing directly from an OES parts manufacturer allowed the motor factor to avoid a wholesaler mark-up,¹⁹⁵ and that 'the higher order threshold to qualify for free carriage is often easily met in practice by motor factors given that these OES manufacturers all supply "fast moving" (and therefore high volume) CVT parts'.¹⁹⁶

Customer views

7.179 As noted in paragraph 6.52, some customers told us that they tended to use OES parts manufacturers for specialist parts with limited availability, or where quality is critical. In addition, customers said that in some cases next day delivery is offered on less attractive terms than wholesalers (eg higher thresholds for free delivery). Customers told us that OES parts manufacturers are typically used for stock orders and wholesalers for daily purchases.

Provider views

7.180 Views differ as to whether OES parts and PL parts (and OEM parts) are comparable:

- (a) Boydell and Jacks (an OES parts manufacturer) said that, generally, PL parts and OEM parts mainly differ in the labelling. Many companies simply re-box the OEM product in their own label packaging. In many cases, the

¹⁹² [Parties response to Phase 1 Decision](#), paragraph 4.22.

¹⁹³ [Parties response to Phase 1 Decision](#), paragraph 4.18.

¹⁹⁴ [Parties response to Phase 1 Decision](#), Table 1.

¹⁹⁵ [REDACTED]. [REDACTED].

¹⁹⁶ [Parties response to Phase 1 Decision](#), paragraphs 4.19 to 4.21.

same manufacturer may produce the OEM, OES and PL version of a part and these would be physically identical.

- (b) Unipart (owner of TTC, a former wide range wholesaler) said that PL parts [REDACTED].
- (c) Dinex (a narrow range wholesaler) said there would be a difference in the products labelled under OEM, OES and PL. Dinex thought that whilst PL parts can be of lower quality, provided they perform to an OEM standard and are validated, then they can be released in the aftermarket. Dinex believes that differences in terms of price between OEM, OES and PL versions of a part relate to differences in quality.
- (d) Roadcrew (an 'all makes' supplier) said that PL is not perceived to have the same value or quality as OEM. Some PL and OES products may have the same physical and functional features, but for the majority there is a difference, particularly with safety critical parts.

Our assessment

- 7.181 As discussed earlier in this chapter, the Parties' internal documents show that they are primarily focused on one another as competitors, and to a lesser extent on other wide range wholesalers.
- 7.182 These internal documents also show a degree of competitive interaction with OES parts manufacturers. In particular, UC attributes [REDACTED]% of 'leakages' to competitors to OES parts manufacturers ([REDACTED], see Table 7.6), and OES parts manufacturers account for [REDACTED]% of competitor mentions in UC's internal discussions. On the other hand, [REDACTED], and OES parts manufacturers account for only [REDACTED]% of mentions of competitors in UC's price negotiations, and only [REDACTED]% of its 'overstrike' discounts in response to competitors. On balance, we infer from these internal documents that OES parts manufacturers exert only a limited competitive constraint on the Parties.
- 7.183 It is possible, in principle, that customers could switch some of their demand to OES parts manufacturers in response to a price increase by the Merged Entity. However, in doing so they would have to place a larger number of orders than before, and to pay delivery fees where they did not meet the minimum threshold on those orders. In addition, some OES parts manufacturers appear to be focused on supplying to wholesalers rather than motor factors.
- 7.184 In light of the above, our provisional view is that no individual OES parts manufacturer exerts an effective competitive constraint on the wide range wholesale supply of CVT parts by the Parties; and when they are taken in

combination, OES parts manufacturers exert only a limited competitive constraint.

7.185 In view of the points set out above, our provisional view is that the OES parts manufacturers exert, at most, a limited constraint on the Parties.

‘All makes’ suppliers

7.186 The Parties submitted¹⁹⁷ that ‘all makes’ suppliers are a significant competitive constraint and are able to offer same day or next day delivery via their local dealership networks.

7.187 As set out in paragraphs 6.72 to 6.75, ‘all makes’ suppliers told us that they do not see themselves as competing with wholesalers. In addition, as set out in paragraphs 6.77 to 6.79, of seven third party wide range wholesalers only Majorsell, one of the smallest, saw ‘all makes’ suppliers as competitors, and fewer than half of narrow range wholesalers saw ‘all makes’ suppliers as competitors. The Parties’ internal documents include very little consideration of ‘all makes’ suppliers.

7.188 If ‘all makes’ suppliers were an indirect constraint on the Parties, we would expect the Parties’ customers, ie motor factors, to see ‘all makes’ suppliers as competitors. In response to our questionnaire, 18 out of 37 motor factors said they monitor prices of ‘all makes’ suppliers and 19 did not.

7.189 The customers who said they monitor the prices of ‘all makes’ suppliers had differing views on the strength of competition from them: some said they carried out limited monitoring or on ‘ad hoc’ basis, but others said that they compete with ‘all makes’ suppliers.

(a) Truck and Trailer Equipment said: ‘To some degree but our competitors in the main are factors the same as us and so driven by their purchase price which in the main is the same as ours.’

(b) Picksons said: ‘We are aware of the regular price offers advertised by the main dealers. We use this as useful market information and react when and if we need to.’

(c) EMS–FP&S said: ‘Yes - the likes of the main dealer programs (TRP/VRS/Roadcrew) make large margins on both their captive parts and the labour provided by vehicles serviced in their workshops. They use the aftermarket parts as the “cherry on top” so tend to offer ridiculous margins

¹⁹⁷ [Parties response to Phase 1 Decision](#), paragraph 6.2.

because they can afford to. We rely on the aftermarket, we don't compete with our customers who run workshops, our business is parts.'

(d) Guest Truck said: 'Yes because that is who we are competing with in the non-franchise side of the business.'

7.190 The customers who said they do not monitor the prices set by 'all makes' suppliers gave a variety of reasons. Some said that they do not have the capacity to do so. Others said that they compete more on service. UK Truckparts said that it is 'generally more competitive [than 'all makes'] anyway'.

7.191 We also asked motor factors whether their own customers also purchase from 'all makes' suppliers and whether they are aware of instances when their customers have switched between them and 'all makes' suppliers.¹⁹⁸ Of the 37 customers who answered this question, 15 responded in the affirmative, although again these customers disagreed on the extent to which this happened. The extent of competition differed depending on issues such as proximity to outlets, relative quality, and the type of demand.

(a) Benella said: 'all main dealers use 'all makes' wholesalers which has had a major effect on our business.'

(b) Picksons said: 'We don't have any access to this kind of information, but I would imagine some customers do buy off 'all makes' suppliers to some degree, whether it be due to special offers, a personal relationship, or proximity to the branch.'

(c) Truck and Trailer Equipment said: 'Yes, this happens when some OEMs do special prices, also several are now doing 'all makes' programs and finally, in some instances quality of alternative parts have been questionable.'

(d) Coefficient Brake Services said: 'This only tends to happen in export markets where the route to market rules or historic understandings seen in the UK don't apply.'

7.192 We also asked customers whether a hypothetical price increase of 5% of all UC and 3G products would influence the prices set for their customers.¹⁹⁹ Out

¹⁹⁸ Third party questionnaire: The question was 'Do your customers also purchase from 'all makes' wholesalers? Are you aware of any instances where your customers have switched purchases from you to 'all makes' wholesalers? Or switched from 'all makes' wholesalers to you? If so, why did they switch?'

¹⁹⁹ Third party questionnaire: The question was 'If Universal Components and/or 3G increased the prices of all their products by 5%, would this have any influence on the prices that you set for your customers? If so, explain how much and why your price would change.'

of 40 customers who provided an answer to that question, 35 said that they were likely to increase their prices to customers in response to such a price increase by UC and 3G at least to some degree.

7.193 In our view, this points towards ‘all makes’ suppliers not being a strong constraint on the prices of motor factors.

7.194 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

7.195 We also explored competition with ‘all makes’ suppliers on calls with customers. Customers said that ‘all makes’ suppliers were a constraint on their business, but some customers said that the level of expertise and service offered by ‘all makes’ suppliers is generally poorer than that offered by motor factors.

(a) [X] said that it loses sales to both ‘all makes’ suppliers and other motor factors, depending on who was active in the local market, and it tried to price match with both. [X] told us that the proportion of price matching requests received from its customers related to ‘all makes’ suppliers would be around 30% to 50%. In [X] experience, DAF appears to be prepared to offer parts at any price to get the sale. [X].

(b) Digraph estimated that it is competing with TRP in at least one in every five or ten enquiries. Digraph’s customers use TRP in a similar way to how they use Digraph. However, in Digraph’s view, the ‘all makes’ providers do not have a very high service level. For example, Digraph offers an ‘on demand’ delivery service, which means that most customers receive their order within an hour, whereas ‘all makes’ tend to offer only morning or afternoon slots. Digraph considers that ‘all makes’ dealers are competitive with motor factors. It told us that main dealers tend to be really strong on their own brand and their representatives have superb knowledge on their brand products, but they do not have the breadth of knowledge that Digraph staff have.

7.196 In summary, we have not seen strong evidence that the Parties or other wholesalers see themselves as competing against ‘all makes’ suppliers. Some motor factors see themselves as facing competition from ‘all makes’

suppliers, but others do not. In addition, motor factors did not consider that they would be unable to pass on a wholesale price increase to their customers, as one might expect if they were competing closely on price with 'all makes' suppliers.

7.197 In view of this, our provisional view is that 'all makes' suppliers exert, at most, a limited constraint on the Parties.

Authorised aftermarket (AAM)

7.198 This section considers whether and the extent to which the supply of CVT parts in the AAM imposes an indirect competitive constraint on the Parties.

7.199 The Parties submitted that when the warranty of a vehicle expires, the vehicle operator has the option of having the vehicle served in the AAM or in the IAM. As the vehicle operator has the option to rely on the AAM, this latter segment may constitute an indirect competitive constraint on any CVT parts wholesaler that does not have access to the AAM.²⁰⁰

7.200 In this section, we consider the following:

- (a) Evidence from UC's strategy documents on how UC views the CVT aftermarket.
- (b) Evidence from other wholesalers on how end customers use both the IAM and the AAM.

UC strategy documents

7.201 In many of the strategy documents where UC assesses the UK aftermarket for CVT parts, [REDACTED]. An example is Project Alpha Business Case (April 2019), in which UC states that [REDACTED]. Similar references and graphs appear in several other documents.

7.202 As discussed above, UC's pricing documents, including its benchmarking, internal discussions about pricing, and negotiations with customers, are focused on potential competition from other wholesalers. UC benchmarks against OEM dealers for [REDACTED]% of products (paragraph 7.32), accounting for [REDACTED]% of sales by value (paragraph 7.33), and OEM dealer prices account for [REDACTED]% of mentions in its benchmarking (Figure 7.3). However, overall these documents are focused on other wholesalers rather than the AAM. Similarly, UC's internal documents about interactions with competitors are focused on

²⁰⁰ [Parties response to Phase 1 Decision](#), paragraph 6.7 and 6.8.

wins, opportunities, losses and threats from other wholesalers, not from the AAM. We have seen no evidence in its internal documents that UC takes account of switching to the AAM by customers of the garages that are supplied by motor factors.

Evidence from other wholesalers

7.203 Some wholesalers commented on interactions between the AAM and the IAM. For example:

- (a) Boydell and Jacks told us that end vehicle operators will shop around and go where they get the best deal, whether in the aftermarket (garages, workshops) or the authorized aftermarket (franchised service centres).
- (b) Dinex told us that OEM dealers are tying in customers in the authorized aftermarket through repair and maintenance programmes (R&M). Customers who would have gone to the aftermarket, are tied in the AAM.
- (c) Roadcrew considered that when the warranty expires the proportion of users that go to the IAM increases, but that for some parts, such as safety critical parts, end users may still rely more on the AAM.

7.204 We note that the comments from Dinex and Roadcrew relate to end-users remaining in the AAM, rather than switching away from the IAM to the AAM based on the relative price of the two. The AAM is typically a more expensive option than the IAM, so price-sensitive end users may be unwilling to switch from the IAM to the AAM.

7.205 Furthermore, the wholesale cost of parts is only one aspect of the service that garages and workshops offer. Other things being equal, this reduces the likelihood that any price increase by the Parties would in itself result in substantial switching to the AAM.

7.206 In view of the above, our provisional view is that the AAM exerts, at most, a limited constraint on the Parties.

Provisional conclusion on competitive assessment

7.207 As set out in paragraph 7.105, in our provisional view the Parties are one another's closest competitors, and this is supported by evidence of influences on the Parties' pricing decisions, evidence on customer switching and diversion, UC's Merger rationale documents, and third party views on the Merger.

7.208 The Parties also face a degree of competition from other wide range wholesalers, and narrow range wholesalers. However, in our view this competition is significantly less of a constraint on the Parties than they are on one another, in particular because:

- (a) Other wide range wholesalers, individually and collectively, have a more limited presence in the market than the Parties (when sales by CV Logix to other members of the AAG Group are excluded); and
- (b) Narrow range wholesalers serve a different demand than wide range wholesalers – ie they do not offer a ‘one stop shop’ which is the main reason motor factors use wide range wholesalers (as set out in Chapter 5).

7.209 This is supported by the Parties’ internal documents – for example UC benchmarks more than [X] of its products against 3G (Figure 7.3), fewer than 20% against [X], and around 10% or fewer against any other wholesaler, while 3G is mentioned in around [X]% of UC price negotiation documents, with each other wholesaler (excluding TTC) mentioned in fewer than [X]% of documents (Figure 7.7). 3G [X], and UC is mentioned in [X]% of its price negotiation documents, with no other competitor mentioned in [X]% of documents.

7.210 In addition, the estimated expenditure weighted diversion from UC to 3G is [X] [40 - 50]%, and that from 3G to UC is [X] [50 - 60]%, from which we infer that they are at least as important a competitive constraint on one another as all other competitors combined.

7.211 The Parties face at most a limited constraint from respectively OES parts manufacturers, ‘all makes’ suppliers and the AAM. This is evidenced by the Parties’ internal documents and our diversion estimates, where OES parts manufacturers do not appear as an important constraint, and ‘all makes’ suppliers and the AAM are hardly present.

7.212 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 (paragraphs 7.78 to 7.82), which describe the effects of the Merger as giving UC a ‘dominant’ position, reducing customer choice, and the removal of constraints on UC’s pricing and rebates. Our view is further supported by the concerns raised by the large majority of customers who expressed a view on the Merger, with many commenting on the lack of alternatives to the Parties, or concerns about a lack of competition or higher prices following the Merger (paragraphs 7.87 to 7.92).

7.213 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. We have also provisionally concluded that the SLC may be expected to result in adverse effects, for example in the form of higher prices and/or lower quality of products or customer service than would otherwise have been the case absent the Merger.

8. Countervailing factors

8.1 When considering whether a merger has resulted, or may be expected to result, in an SLC, the CMA considers factors that can mitigate the effect of a merger on competition (countervailing factors) which in some cases may mean that there is no SLC. These factors include:²⁰¹

- (a) the responses of other suppliers (such as rivals or potential new entrants) to the merger, for instance the entry into the relevant market of new providers or expansion by existing providers;
- (b) the ability of customers to exercise buyer power; and
- (c) the effect of any rivalry-enhancing efficiencies arising as a result of the merger.

8.2 In this chapter we consider each of these factors in turn.

Entry and expansion

8.3 As set out in the CMA Merger Assessment Guidelines, the analysis of a possible SLC should take into account the responses of others, including rivals. The CMA will consider whether the entry of new firms, or the expansion of operations by existing firms, would mitigate the initial effect of a merger on competition to such an extent that no SLC would arise. In assessing whether entry or expansion might prevent an SLC, the CMA will consider whether it would be timely, likely and sufficient to do so. This assessment involves a consideration of any barriers to entry or expansion that may exist, alongside other factors that affect firms' incentives or ability to enter or expand in a market.²⁰²

8.4 We first assess the extent to which there are any barriers to entry or expansion, before we examine whether there is evidence that entry and/or

²⁰¹ [Merger Assessment Guidelines](#), sections 5.7 to 5.9.

²⁰² [Merger Assessment Guidelines](#), paragraphs 5.8.1 to 5.8.4.

expansion within the relevant market is timely, likely and sufficient to prevent an SLC.

Barriers to entry and/or expansion

- 8.5 Barriers to entry and/or expansion are specific features of a market that give incumbent firms advantages over potential competitors. Where such barriers are low, the merged entity is more likely to be constrained by entry; conversely, this is less likely where barriers are high.²⁰³

Parties' views

- 8.6 The Parties told us that there were limited barriers for expansion for an existing non-UK wholesaler in the relevant market. The Parties told us that wholesalers who wanted to start supplying CVT parts in the UK would need to invest in staff, premises, a basic technical understanding of product lines, and hold a stock of spare parts as well as obtain knowledge of market conditions, customer requirements and the commercial vehicles being operated in the UK.
- 8.7 The Parties also told us that wholesalers tended to have supply agreements in place with their key customers, although they submitted that these agreements were not necessarily exclusive and could be terminated with reasonable notice. For instance, the Parties told us that both UC and 3G had formal agreements with their buying group customers which were valid for a period of [X] and could be terminated following a [X] notice period, respectively.
- 8.8 The Parties also submitted that barriers to expansion for existing wholesalers were low. In particular, the Parties submitted that motor factors would purchase spare parts from existing wholesalers provided they were competitively priced, available for delivery and the wholesaler provided a good level of service. However, the Parties acknowledged that for a narrow range wholesaler to expand and start supplying a wide range of CVT parts, it would need to invest in stock, marketing, technical staff, warehouse capacity, infrastructure (such as forklift trucks, racking/shelving) and operational capability.
- 8.9 The Parties told us that the cost of entry to the UK was not high. UC told us that it was estimated that it would require £[X] million (£[X] million for stock

²⁰³ [Merger Assessment Guidelines](#), paragraph 5.8.4.

and £[X] million for facilities) for initial set-up. 3G told us that it entered in 2010 with an initial capital investment of £[X] million.

- 8.10 3G also told us that imports from abroad faced limited barriers to entry as they could be carried out without a UK warehouse. For instance, the Parties told us that Sampa had supplied some motor factor customers in the UK for several years before opening a warehouse in Manchester and had next day delivery terms.

Our assessment

- 8.11 Based on the submissions we received from the Parties and third parties, which we describe in more detail below, we considered the following potential barriers to entry and/or expansion in the relevant market:

- (a) Costs and timescales of establishing a wholesale business;
- (b) Importance of wholesalers' reputation and branding; and
- (c) Economies of scale.

Costs and timescales of establishing a wholesale business

- 8.12 We have considered the evidence relating to the costs and timescales for a competitor to become a wholesale distributor of a wide range of CVT parts to motor factors in the UK with product fields similar to those of the Parties and competitors.
- 8.13 We address later in this chapter the other factors a new entrant would need to act as an effective competitive constraint on the Merged Entity. We note that much of the evidence set out in this section on the cost and time required to establish a wholesale business also relates to the cost and time required to build a reputation, which we address in the next section.
- 8.14 The Parties submitted that a wholesaler did not need to be as big as the Parties in order to compete effectively with the Parties. UC submitted that it could take between five and ten years for a new entrant without any established reputation, and between two and three years for an established wholesaler in the EU, to achieve a 5% share of supply in the IAM for the wholesale supply of PL CVT parts in the UK.
- 8.15 The Parties also told us that it would take between two and five years to start supplying a wide range of CVT parts in the relevant market. 3G told us that this timeframe could be less than 12 months for a wholesaler already

supplying one or more product categories of CVT parts in the UK, or six to 12 months for an existing wide range wholesaler operating outside the UK.

8.16 UC's internal documents state that it did not expect entry and/or expansion which could meaningfully constrain the Merged Entity to occur in the next four to five years:

- (a) 'the dominance of UC in the UK IAM would be time-limited, as the demand from factor business for alternative options of supply would become great, and competitors attempting to position themselves in this way would eventually see high-growth, with sales taken directly from UC. [...] It is estimated that this opportunity would be available from the date of acquisition of [3G], for 3 to 4 years before a valid alternative supplier establishes itself';
- (b) 'The current lack of strong competition to UC and [3G] is expected to be time-restricted. The current makeup of the UK IAM indicates that the acquisition of [3G] would restrict the establishment of alternative supply options for an extended period of time (4 to 5 years)';
- (c) 'it is apparent that significant short-term revenue gains would be achievable during the 3 to 4 years post acquisition. The risk after this period is that a strong alternative competitor, who would be at a size capable of providing extra flexibility to service customer would establish itself in the marketplace'; and
- (d) 'The requirement for a large investment in premises and stock, along with the time required to integrate a new brand into the market and build customer trust, would make the positioning of a viable competitor to UC earlier than 4 to 5-year estimate time-frame highly unlikely'.

8.17 In addition to these initial set-up costs, we note that UC's internal documents show that the Merger was considered to reduce the likelihood of competitive entry and/or expansion occurring:

- (a) One document refers to '[r]educed risk of competitor's entry into the UK' as one of the strategic benefits of market consolidation in the UK. The same document also mentions that 'the lack of fragmentation of the UK market would make foreign entry into the UK commercial vehicles IAM highly unlikely. The timeframe required for this task would be in excess of the timeframe required for UC to consolidate within the UK IAM, which would further reduce this risk'.
- (b) Another document notes that 'with the strengthening of UC's dominant position in the UK IAM should an acquisition occur, the cost for a viable competitor to establish a foothold in the market would be significant. The

acquisition would therefore lessen the likelihood of a viable competitor establishing a presence in the UK’.

- 8.18 One third party (EBS) told us that it would take a new entrant two to three years to introduce a similar scale of products as the Parties, and would require hiring product managers, training a sales team, product quality assessment and marketing. Two third parties (Aspoeck and Boydell and Jacks) told us that it will take five to ten years to reach similar size and scale as the Parties in relation to a wholesaler’s reputation, product groups offered and contracts with customers and/or manufacturers.
- 8.19 We note that Sampa set up a warehouse in February 2020, which had taken [X] and an investment of £[X]. In relation to potential investments, one third party (AAG) stated that the cost of expansion was high due to the size of warehouse required and that it would require around £4 million of investment by a motor factor to enter as a wholesaler in the relevant market. Further, two third parties (Roadlink and IFA) stated that it would be time consuming to expand in terms of stock value, marketing, warehouse, selling and distribution.
- 8.20 The evidence provided to us by the Parties and third parties (Sampa and AAG), as set out above, is that a new entrant would need at least £1 million to establish a warehouse, as well as the additional investment needed to provide a wide range of products akin to that offered by the Parties. By way of context, UC’s and 3G’s combined net profits after tax for the financial year 2019 amounted to £0.8 million.²⁰⁴

Importance of wholesalers’ reputation and branding

- 8.21 In relation to potential demand-side factors as a potential barrier, we considered the importance of reputation/brand to a customer when choosing from which supplier to buy CVT parts.
- 8.22 We note that the Parties recognised the importance of a wholesaler’s reputation as a trusted supplier as an important factor in a customer’s choice of supplier, meaning that new entrants without any existing reputation might find it difficult to win new customers as well as secure supply arrangements with manufacturers. The Parties also stated that the reputation of a wholesaler for reliability and quality is the first thing a motor factor will consider.

²⁰⁴ These figures are taken from 2019 statutory accounts. Calculated as UC’s net profit after tax from continuing operations of £0.3 million and 3G’s net profit after tax of £0.5 million.

- 8.23 A customer (Linings and Hoses) also noted the importance of a new entrant's reputation, stating that it was 'unsure of the quality' of Sampa's product range as it was a new entrant in the market.
- 8.24 In relation to ensuring the success of any entry or expansion, one third party (Automint) told us that when it entered into a new product category, it entered 'slowly' so it could build a trusted brand with its customers. Further, one third party (Sampa) told us that as a manufacturer it supplied to OEMs (eg [X]) and therefore [X] would trust its products because being a supplier to OEMs was a 'good reference for quality'. Another third party (BPW) told us that investment required in building a brand would be an 'immense barrier'. One third party (EBS) told us that in order to expand, each year it would invest in its marketing activities, new product development and quality assurance.
- 8.25 21 of the 38 customers considered reputation to be 'very important' and 16 of the 38 customers considered reputation to be 'fairly important' when choosing the supplier (see Figure 5.1). Some of the customers also added that brand/reputation was relevant for all product categories.
- 8.26 The evidence set out above shows that a wholesaler's reputation (eg as a 'trusted supplier'), in particular for reliability and quality and to a lesser extent its branding, are seen as important by both the Parties and customers, and these take time and investment to establish.

Economies of scale

- 8.27 Economies of scale arise where average cost falls as the level of output rises,²⁰⁵ allowing existing large suppliers to benefit from lower costs. Potential entrants or small suppliers need to make additional initial investments in order to build up scale and benefit from these reduced costs in order to act as an effective competitive constraint on the Merged Entity.
- 8.28 In relation to economies of scale as a potential barrier to entry and/or expansion, the Parties told us that:²⁰⁶
- (a) there were no economies of scale benefiting wide range wholesale suppliers over suppliers who focused on one or a smaller number of CVT part markets;

²⁰⁵ [Merger Assessment Guidelines](#), paragraph 5.8.5.

²⁰⁶ We note that the Parties told us that one feature of the Merger rationale was volume-based cost reductions from suppliers (paragraph 3.9).

- (b) there were some advantages which could be achieved with increased volume and these could benefit all types of wholesale suppliers of CVT parts including suppliers focusing on just one CVT component category;
- (c) wholesalers typically purchased different types of products from different manufacturers, so any scale advantages were limited to the volumes ordered from any given manufacturer and not volumes across the range of CVT parts sourced from different suppliers. The Parties told us that this meant that narrow or niche range suppliers often had a greater advantage where they purchased greater volumes for certain types of products;
- (d) there were small savings that could be achieved on warehouse cost with increased volume; and
- (e) there were some economies arising from shipping increased volumes to individual customers. The Parties told us that narrow range or niche wholesalers had an advantage over wide range wholesalers as they tended to trade greater volumes of their more limited range of CVT parts with a smaller number of customers.

8.29 Several third parties (Bosch, CV Logix, TMD Friction, Roadlink, and Winnard) told us that there were scale benefits associated with increased volumes. One third party (Business Lines) told us that buying in bulk helped to get supplier rebates. One third party ([X]) however told us that the procurement and logistics cost benefits were limited.

8.30 The evidence we received in relation to economies of scale as a potential barrier to entry or expansion was mixed. However, we note that the Parties acknowledge the benefits of scale (eg in terms of volumes) and that smaller suppliers can at least partially benefit from such scale benefits within narrow product ranges.

Our provisional view on potential barriers to entry and/or expansion

8.31 Based on the evidence above, 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.

8.32 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.

8.33 We are also 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.

- 8.34 It is also our provisional view that there are some economies of scale for suppliers who achieve high volumes in particular product lines. The effect of these is that a new entrant or small supplier would be likely to face the need for higher initial investment to achieve sufficient size to benefit from these scale economies.

Possible sources of entry and/or expansion

- 8.35 We 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.

Recent history of entry and/or expansion and planned expansion by third parties

- 8.36 The Parties identified the following firms as competitors who had entered and/or expanded in the relevant market over the past ten years: Sampa, Inter Cars, CV Logix, Diesel Technic, J4 Truck Components, Borg & Beck, Bison, EBS and BPW. We provide below the evidence we have received on these companies from the Parties, from other third parties, and from the competitors themselves about their entry and/or planned expansion.

Sampa

- 8.37 The Parties told us that Sampa, a Turkish parts manufacturer, was a 'large competitor' with a significant range which Sampa would expand over time. The Parties told us that Sampa currently offered a range of printed catalogues, competitive pricing and an extensive web shop in the UK. The Parties also told us that Sampa opened a warehouse in Trafford Park in February 2020 in order to increase its customer base in the UK and Ireland (which it had previously been supplying from outside the UK). The Parties told us that Sampa had reached a stockholding of around £1 million within three months of inception and had a target to reach around £10 million within 3 years. 3G told us that Sampa has opened accounts for many of 3G's existing factor customers.
- 8.38 One third party (Boydell and Jacks) told us that Sampa would expand its product range in the next three to five years and would replace TTC 'easily' and 'quite quickly' to become a 'big player' in the market. Two third parties (AAG and Linings and Hoses) told us that Sampa's product range and service were not 'strong enough' compared to the Parties. Two third parties (CPS and

IFA) told us that while it was possible that Sampa could expand its product range to be similar to the Parties', Sampa could not compete with the Parties on a like-for-like basis in the next two years.

- 8.39 Two third parties (CV Logix and [REDACTED]) told us Sampa does not have a good reputation in the market as it had previously had product quality issues with its supplies to CV Logix.
- 8.40 Sampa told us that it opened a warehouse in Trafford Park in March 2020. We note that Sampa supplies [REDACTED], with [REDACTED]. Sampa's UK sales to [REDACTED] are [REDACTED] compared to the Parties' sales to [REDACTED]. Its UK [REDACTED] from [REDACTED] in 2015 to [REDACTED] in 2017 [REDACTED] in 2019.
- 8.41 [REDACTED].
- 8.42 Sampa told us that it had increased its product portfolio in the last three years and [REDACTED]. However, Sampa told us that it wanted to focus on [REDACTED].

Inter Cars

- 8.43 The Parties told us that the strategy of Inter Cars, a Polish parts distributor in central and eastern Europe, was to move into the UK market initially using franchises and then subsequently opening its own facility, once it had information on the market. 3G told us that Inter Cars had opened an office/warehouse in the UK, with a view to offering an overnight delivery service in near future. The Parties also told us that Inter Cars offered two to three deliveries per week to the UK and that its expansion into the UK had been successful as it had an established product range available to motor factors in the UK.
- 8.44 Two third parties (AAG and IFA) told us that Inter Cars' product range and service were not 'strong enough' compared to the Parties. One third party (IFA) told us that it did not consider that Inter Cars could expand in the UK in the next two years as it would need to invest in warehousing and distribution in the UK, and also align its product range to UK vehicle parts. One third party (Dinex) however told us that Inter Cars had a facility in the UK where it did not currently stock parts, but that this facility was ready to start supplying in the UK. One third party (CV Logix) told us that Inter Cars has a good range, quality and competitive price, but customers have to wait for their stock order. One third party (Granning) told us that Inter Cars would require a warehouse in the UK to provide next day delivery, and it will take a 'long time' for them to match the Parties' product fields in the UK.
- 8.45 Inter Cars told us that it would expand its revenues by [REDACTED]% year-on-year in the relevant market [REDACTED], and that it would take [REDACTED] to reach the same level of

sales as the Parties. Inter Cars also told us that currently it has [REDACTED] working across its CVT and automotive operations in the UK and it had [REDACTED]. It told us that it [REDACTED]²⁰⁷ [REDACTED]. It further told us that the Inter Cars group [REDACTED].

CV Logix

- 8.46 The Parties told us that CV Logix entered the UK market at the wholesale level in 2017. The Parties also told us that CV Logix's product offering in the relevant market was mainly in OES parts, and that in the past 12 months, it had started to offer PL parts.
- 8.47 Several third parties (Allspares, Dinex, EMS-FP&S, Granning, IFA, Majorsell, Picksons, Roadlink and TMD Friction) told us that CV Logix had expanded its range of products and number of product groups. Some of these third parties also told us that CV Logix had a central warehouse for its buying group members (GAU and UAN), and now, similar to UC, had started supplying to the IAM more generally and offered a 'one stop shop' solution. Further, they told us that CV Logix had acquired a number of wholesalers (such as Apec Braking, Platinum Batteries, BTN Turbo, FPS) to increase and strengthen its product offering.
- 8.48 With respect to CV Logix's entry and expansion plans, CV Logix submitted that it intended to expand its offering for PL parts, and also to develop its business activities to sell to non-group motor factors.
- 8.49 CV Logix's revenue increased from £[REDACTED]million in 2018 to £[REDACTED] million in 2019 and CV Logix expected revenue to increase to around £[REDACTED] million in 2022. However, we note that most of the expected increase in revenue is through sales to its own group motor factors and its own group buying groups, and its revenue to non-group motor factors is forecast to increase by £[REDACTED] million (from £[REDACTED] million to £[REDACTED] million) in the next two years (2021 to 2022). CV Logix told us that currently its warehouse is at full capacity and it will build temporary structures outside its current warehouse. It plans to move to another warehouse in three years but that this will be an AAG group decision.

²⁰⁷ Inter Cars told us that it has a small warehouse in the UK, but that is to hold stock of some small automotive parts that Inter Cars UK has started importing directly from China.

Diesel Technic

- 8.50 The Parties told us that Diesel Technic, a German PL parts supplier, had expanded in the UK, and dispatched its product from Europe for delivery to the UK.
- 8.51 One third party (Boydell and Jacks) told us that Diesel Technic was established in the UK and was likely to expand its product range to a wide range supplier. It also told us that Diesel Technic would not be supplying from Germany in the near future. One third party (Granning) told us that Diesel Technic is a large German company with good product range but it had not been successful in gaining market share in the UK after its entry in the UK.
- 8.52 Diesel Technic told us that it had opened a UK warehouse in 2015. It told us that it had expanded its range of products in the last three years, and that it currently had [REDACTED] in the UK which would increase depending on the demand for the products. It told us that [REDACTED].

Granning

- 8.53 The Parties told us that J4 Truck Components (now owned by Granning),²⁰⁸ had a comprehensive range of truck body panel products and had become the largest supplier of PL aftermarket body components in the UK.
- 8.54 Two third parties ([REDACTED] and Roadcrew) told us that in the last 10 years, Granning had expanded its product range and had also acquired J4 Truck Components.
- 8.55 Granning told us that in the last few years it had acquired three companies: Switzer Distribution (distributor of clutches and bearings, predominately active in Republic of Ireland), J4 (manufacturer of aftermarket body panels based in UK), and Braketech (manufacturer of brake shoes based in UK). Granning told us that [REDACTED].

Borg & Beck

- 8.56 The Parties told us that Borg & Beck had established an extensive PL offering in the UK due to the backing of its parent company, First Line Limited, a UK based distributor. They also told us that Borg & Beck had in 2015 expanded its product lines to become a wide range wholesaler to supply CVT parts

²⁰⁸ Granning Group acquired J4 Truck Components in June 2020 (see [J4 website](#)).

(before 2015, Borg & Beck was active in the supply of parts for passenger vehicles).

- 8.57 Borg & Beck told us that it had expanded its product range in the last 18 months but in order to [REDACTED]. It also told us that it [REDACTED].

Bison Truck Parts Limited

- 8.58 The Parties told us that Bison, an online motor factor which entered in 2010, offered an extensive product range in the UK.
- 8.59 Bison told us that it does not have [REDACTED].

EBS Aftermarket Group Limited

- 8.60 The Parties told us that EBS had in the last five years expanded its range of product lines to become a wide range wholesaler. It also told us that EBS included turbo chargers (a line not offered by UC), axle braking, steering and engine electrical in its product range.
- 8.61 One third party (Majorsell) specialising in airbrakes mentioned EBS as its 'main competitor' for products relating to airbrake parts.
- 8.62 EBS told us that it would like to grow its revenue by [REDACTED]% year on year from £[REDACTED] million in the next [REDACTED], and its market share by [REDACTED]. It further told us that the majority of the future growth will come [REDACTED].
- 8.63 We also note that EBS revenue [REDACTED]million in 2015 to [REDACTED] in 2018, before revenue [REDACTED]million in 2019. EBS told us that it is not certain why the revenue [REDACTED]in 2019.

BPW

- 8.64 The Parties told us that BPW (a German OES parts wholesaler mainly of axle, brake and steering and suspension parts) had started acquiring motor factors in the UK.
- 8.65 BPW told us that it would grow its revenue by 5% year-on-year from £[REDACTED] in the next two years, but that it would [REDACTED]. It also told us that [REDACTED].
- 8.66 We are aware of one motor factor (EMS-FP&S Limited), owned by BPW, which buys parts from BPW's warehouse in Germany, but note that it also buys parts from UK based wholesalers depending on cost, delivery lead time and ability to service nationally. One third party (Granning) told us that BPW's

acquisition of EMS-FP&S had not been successful as it had not invested in infrastructure, 'good staff' and 'underappreciated the tightness of the market'.

Entry and/or expansion by parts manufacturers who supply to wholesalers

- 8.67 We considered whether parts manufacturers who supply to wholesalers have any plans to expand in the relevant market. We note that some parts manufacturers do supply some large motor factors directly, although in our view this is materially different to being a 'wide range' wholesaler, in particular because most parts manufacturers tend to offer a narrower range of product groups compared to wide range wholesalers. In addition, motor factors tend to use manufacturers for large stock orders rather than requiring same day or next day delivery.
- 8.68 In relation to whether parts manufacturers had plans to enter into the relevant market, several parts manufacturers (Jonesco, MHT Europe, [X], Ran Sinai Mamuller Otomotiv, MEI Brakes, Rota, Tube Gear and Worldwide) responded to our questionnaire. All of these third parties told us that they had no intention or specific plans to vertically integrate and become a wholesaler in the relevant market.

Entry and/or expansion by motor factors

- 8.69 The Parties told us that LKQ, Euro Car Parts' parent company, had acquired Digraph,²⁰⁹ a motor factor, and was setting up its own central warehouse and depot network, thereby cutting out UC. One third party (Business Lines Limited) told us that Digraph had successfully expanded in the last ten years.
- 8.70 LKQ told us it acquired a [X]% stake in Digraph in 2017 [X]. It also told us that it had no plans for expansion in the relevant market (outside of its participation in Digraph). LKQ's plans for expansion are not considered further given that it has no plans for entry and/or expansion in the relevant market.
- 8.71 The Parties and third parties we approached were not aware of any other motor factor with plans to enter the relevant market.

Entry by new players in adjacent or related markets that are not currently present in the UK

- 8.72 One third party (Boydell and Jacks) told us that 'a large German wholesaler' was 'looking to enter in the UK', and that it had advised the German

²⁰⁹ LKQ bought motor factor Digraph in 2017. (<http://www.catmag.co.uk/sukhpal-and-lkq-significant-investment-in-hgv-factor-chain>)

wholesaler on a possible location for its warehouse. The third party was however unable to provide any evidence to substantiate this or to name the wholesaler.

- 8.73 The Parties and third parties we approached were not aware of any other international competitors who are wholesalers in CVT parts and not present in the relevant market in the UK, with plans to enter the relevant market.

Our assessment of whether entry or expansion would be timely, likely and sufficient to prevent an SLC

- 8.74 To constrain the Merged Entity and thereby prevent any SLC arising as a result of the Merger, entry or expansion would need to be timely, likely and of sufficient scope. In order to do this, a new or expanded competitor would need to act as an effective competitive constraint on the Merged Entity, for example in respect of goods (eg product range), services, quality and price, or do so in aggregate with other new entrants or expanding competitors.
- 8.75 In terms of recent entry in this market, apart from 3G's entry in 2010,
- (a) Diesel Technic and CV Logix have (in 2015 and 2017 respectively) set up dedicated warehouse facilities to compete in the relevant market.
 - (b) Sampa also set up a dedicated warehouse in 2020, but [REDACTED] as discussed in paragraph 8.40.
- 8.76 We note that it has taken 3G a decade to reach sales of £10.8 million in the relevant market. Third parties (Boydell and Jack and Winnard) told us that only 3G had established itself as a major player in the relevant market in the last ten years. A third party (Winnard) also said that 3G was established by former UC staff with significant industry experience and contacts and this was cited as the main factor behind its quick growth.
- 8.77 In addition, CV Logix has seen significant revenue growth from motor factors and buying groups since 2016, with these revenues reaching around [REDACTED] million by 2019, and being forecast to further increase to around [REDACTED] million by 2022. However, in our view there are specific circumstances relating to the growth of CV Logix: CV Logix's expansion in the relevant market has been driven by the AAG group's (CV Logix's parent company) acquisition of motor factors and wholesalers. A high proportion ([REDACTED]) of CV Logix's sales are to AAG-owned motor factors.
- 8.78 In relation to the future expansion plans of the wholesalers suggested by the Parties, we found that any expansion would likely be limited in scope (eg in relation to target customers or product range), specifically:

- (a) while Sampa had plans [REDACTED], we note that: (i)[REDACTED]; and (ii) the evidence from both Sampa and certain third parties shows that any such expansion [REDACTED] would likely take longer than 2 years for it to be able to offer a product range that would act as an effective competitive constraint on the Merged Entity;
- (b) in relation to Inter Cars, we noted that Inter Cars had [REDACTED] over the next 2 years;
- (c) while CV Logix has plans to increase its revenues quite significantly over the next 2 years, we noted that [REDACTED] CV Logix's forecast revenue growth over the next 2 years was [REDACTED];
- (d) while Diesel Technic entered the relevant market in 2015 and captured around [REDACTED] [5 - 10]% market share, we received no evidence that Diesel Technic [REDACTED]. Our view is therefore that any increase in Diesel Technic's revenue would be unlikely to significantly change the strength of its competitive constraint on the Merged Entity; and
- (e) in relation to Borg & Beck, BPW, EBS and Granning we have not seen any evidence that these wholesalers were intending to [REDACTED] in order to act as an effective competitive constraint on the Merged Entity.

8.79 We note that the Parties told us that they will also face increased competition from other players already active in the UK market (for example Dinex and BPW expecting an increase in sales). We have assessed the competitive constraint imposed by narrow range wholesalers in Chapter 7 and in our view this competitive pressure from existing wholesalers, potentially including increases in the products they offer or in their market share as part of this competitive process, does not constitute expansion that would materially change the constraint they currently impose on the Parties.

8.80 With regards to adjacent or neighbouring markets, we have not seen any evidence that parts manufacturers, motor factors or non-UK entrants had any sufficiently developed plans for entry or expansion in the UK. In the absence of any such plans, our view is that it is not likely that actual (or the threat of) entry into, or expansion in, the relevant markets could be expected to materialise over the next two years and therefore in a timely manner.

8.81 In relation to the likelihood of new entry into the relevant market, we have not seen any evidence of sufficiently developed plans that such entry would take place in a timely manner (ie over the next two years).

8.82 We also considered the extent to which the combined effect of the entry and/or expansion plans of new or existing suppliers in the market (discussed

in paragraphs 8.36 to 8.73) may act as an effective competitive constraint on the Merged Entity. We note that in each instance in which potential entry or expansion has been assessed, we have not been provided with sufficient evidence to conclude that this will likely be achieved in a timely manner. In our view, the evidence is such that we have also provisionally concluded that, even when taken in combination, the potential entry and/or expansion by several firms is not likely, timely and sufficient in scope to constrain the Merged Entity such as to prevent an SLC from arising.

Provisional conclusion on entry and/or expansion

8.83 In summary, our provisional view is that entry and/or expansion would not be timely, likely and sufficient in scope for the following reasons:

- (a) 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;
- (b) our provisional view is that reputation/brand recognition is a barrier to entry and/or expansion, and establishing the reputation necessary to become an effective competitor in the relevant market would be unlikely to be achieved within two years; and
- (c) 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.

8.84 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

8.85 In some circumstances, a customer may be able to use its negotiating strength to limit the ability of a merged firm to raise prices. We refer to this as countervailing buyer power. The existence of countervailing buyer power may make an SLC finding less likely.²¹⁰

²¹⁰ [Merger Assessment Guidelines](#), paragraph 5.9.1.

Parties' submissions

- 8.86 The Parties submitted²¹¹ that all their customers (not only buying groups) demand competitive prices and will simply divert to other wholesalers if the prices offered by the Merged Entity are not competitive.
- 8.87 The Parties also submitted that to the extent that any customer is able to join a buying group, the countervailing buying power of such a group would provide protection to all customers. During the last three years, sales to buying group members on average accounted for around [X]% of UC's sales revenue and [X]% of 3G sales revenue.
- 8.88 The Parties submitted that in all the relevant markets in which the Parties overlapped (which the Parties submitted should be each CVT part category), the Merged Entity would continue to face a large number of competitors to whom its customers could very easily switch. They therefore disagreed that the possibility of countervailing buyer power could be dismissed due to the lack of options from which a customer could choose.²¹²

Our assessment

- 8.89 The CMA's Merger Assessment Guidelines provide that if all customers of the merged firm possess countervailing buyer power post-merger, then an SLC is unlikely to arise. However, often only some, not all, customers of the merged firm possess countervailing buyer power. In such cases, the CMA assesses the extent to which the countervailing buyer power of these customers may be relied upon to protect all customers.²¹³ Where individual negotiations are prevalent, the buyer power possessed by any one customer will not typically protect other customers from any adverse effect that might arise from the merger.²¹⁴
- 8.90 The CMA's Merger Assessment Guidelines also provide that typically the ability to switch away from a supplier will be stronger if there are several alternative suppliers to which the customer can credibly switch.²¹⁵ Moreover, for countervailing buyer power to prevent an SLC, it is not sufficient that it merely existed before the merger, it must also remain effective following the merger.²¹⁶

²¹¹ [Response to Phase 1 Decision](#), paragraph 2.5.

²¹² [Response to Phase 1 Decision](#), paragraph 2.4 to 2.5.

²¹³ [Merger Assessment Guidelines](#), paragraph 5.9.1.

²¹⁴ [Merger Assessment Guidelines](#), paragraph 5.9.6.

²¹⁵ [Merger Assessment Guidelines](#), paragraph 5.9.3.

²¹⁶ [Merger Assessment Guidelines](#), paragraph 5.9.8.

- 8.91 As discussed in the previous Chapter, the vast majority of those customers who commented on the Merger told us that they are concerned and the majority of these said that it will lead to a situation in which there is no credible alternative to the Merged Entity. Of the 28 customers who gave their views on the Merger, 22 said that the Merger would reduce competition,²¹⁷ and 13 of these emphasised the lack of suitable alternatives to UC and 3G in the market. As set out in Chapter 5, the ability to order from a ‘one stop shop’ provider is important to customers, and many customers did not see any other provider as being able to provide such a ‘one stop shop’.
- 8.92 Digraph, one of the Parties’ larger customers, told us that it is not concerned about the Merger because it expects to be able to negotiate a good deal with the Merged Entity. Digraph considered itself to be in a strong position, as it would be a key customer for the Merged Entity. If the Merged Entity raised prices or used suppliers who have a quality that Digraph ‘are not happy with, then [Digraph] will switch [its] business elsewhere’.
- 8.93 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. While the Parties have price lists, negotiation with individual customers and buying groups is widespread. 3G told us that over [%] of its sales are made at prices below those set out in its published price list. The Merged Entity could negotiate lower prices to retain the business of a firm which could otherwise switch elsewhere without having to offer the same prices to other customers who have fewer options.
- 8.94 As with individual firms, the ability of a buying group to exercise buyer power will depend on the availability of alternative providers. IFA submitted that if the Merged Entity were to increase prices to IFA, it would be difficult to challenge that price increase too much, as there would be no real alternative to challenge UC. IFA said it could cover the contract for some products with alternative suppliers ([%]) but would find it difficult to cover all of the products. It said there were ‘pockets of products’ for which the IFA could spend ‘weeks and weeks’ looking for alternatives.
- 8.95 IFA also noted that it ran a tender for what it termed a ‘super wholesaler’. This covered a basket of parts, some of which overlapped with other product tenders. Last time this was tendered IFA approached TTC, UC and 3G as these were the only companies who have ‘super wholesaler’ range and products. If the IFA were to run a new tender exercise for the UC contract,

²¹⁷ See paragraph 7.90.

then the ITQ would be sent to UC and 3G and also to the likes of Sampa and a few others, [REDACTED] and [REDACTED].

- 8.96 GAU/UAN said that in negotiations with UC, it would compare the prices offered by UC with those of CV Logix and other suppliers such as 3G, but that it is difficult to find a company to compare UC with as there are not many other suppliers like UC 'out there' since it has 'such a wide basket'.
- 8.97 GAU/UAN told us that if the Merged Entity were to increase prices to GAU/UAN, then more business would be driven through CV Logix. It considered that it would be able to source [REDACTED]% of the parts purchased through UC and 3G through CV Logix.
- 8.98 The evidence provided to us shows that for GAU/UAN members CV Logix would likely be a suitable alternative for most but not all of the products supplied by the Parties, although the choices for members of IFA would likely be more limited. While we note that many of the products are available from alternative suppliers, there are limited options for suppliers that can offer the advantages of purchasing a range of parts in a single transaction as described in Chapter 7.
- 8.99 Even if buying groups were able to protect their members, a substantial proportion of the Parties' customers are not members of a buying group. The Parties submitted that any customer is able to join a buying group. However, there are conditions that buying groups require to be met when considering applications from motor factors to join a buying group:
- (a) Buying groups require their members to meet a minimum annual turnover threshold. IFA requires that motor factors wanting to join IFA need to have an annual turnover of £2 million or be close to that level and demonstrate that they will reach that level in the short term. GAU requires a minimum annual turnover of £1 million and UAN requires a turnover of £0.5 million.
 - (b) Both IFA and GAU/UAN allow for applications to be vetoed if the motor factor applying is a close competitor to an existing buying group member.²¹⁸ In the last 12 months, IFA has rejected [REDACTED] on this basis.
 - (c) GAU/UAN indicated that they reject applications if the applicant's financial situation raises risks for the buying group.

²¹⁸ Motor factors are local distributors that compete on a local basis. Hence, if the applicant is a motor factor located in the same geographical area as one of the buying group members, its application may be rejected.

8.100 GAU/UAN told us that it rejects [X] of the applications it receives each year – usually on the basis of the business’s financials, in particular the applicant not reaching the turnover requirement.

8.101 Finally, we note that UC’s strategy documents acknowledge that the Merger will lead to less choice, higher prices and lower rebates (see paragraphs 3.10 to 3.28).

Provisional conclusion on buyer power

8.102 For the reasons above, it is our provisional conclusion that buyer power would not prevent an SLC in the present case.

Rivalry-enhancing efficiencies

8.103 As a further countervailing factor, we have considered whether any efficiencies arising from the Merger will enhance rivalry, with the result that the Merger does not result in an SLC.

8.104 To form a view that any claimed efficiencies will enhance rivalry so that a merger does not result in an SLC, the CMA must expect that the following criteria will be met: the efficiencies must be timely, likely and sufficient to prevent an SLC from arising (having regard to the effect on rivalry that would otherwise result from the merger); and the efficiencies must be merger-specific, that is a direct consequence of the merger, judged relative to what would happen without it.²¹⁹

Parties’ views

8.105 The Parties have not made any specific representations about rivalry enhancing efficiencies or that the transaction will generate benefits for customers.

Our assessment

8.106 Efficiency claims can be difficult for the CMA to verify because most of the information concerning efficiencies is held by the merging firms. We therefore expect the Parties to provide sufficient evidence to demonstrate that rivalry enhancing efficiencies will arise as a result of the Merger.

8.107 We note that there are synergy savings that will allow the Merged Entity to negotiate better prices with suppliers, and there will be cost savings from

²¹⁹ [Merger Assessment Guidelines](#), paragraphs 5.7.4.

better utilisation of warehouse space (see Appendix B, paragraphs 1 to 4). However, the Parties have not submitted, nor have we seen evidence, that these cost savings will be passed on to the customers in terms of consumer price reductions.

Provisional conclusion on rivalry enhancing efficiencies

8.108 Our provisional view is that the Parties have not demonstrated that the Merger will result in rivalry-enhancing efficiencies such as to prevent an SLC resulting from the Merger.

9. Provisional conclusions

- 9.1 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.
- 9.2 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.