Economic Brief

The EU car market under the new BER

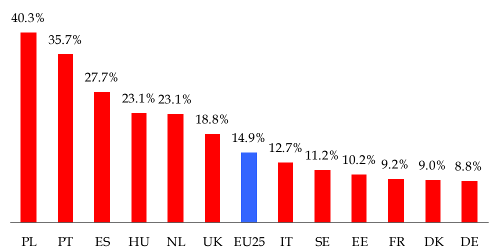
BER 1400/2002 changed the rules of play for the European automotive market. While accepting that certain categories of vertical agreements can improve economic efficiency, the new regulation aims to promote competition between providers on all levels of the market.

*The European Commission (DG Competition) commissioned London Economics to review the impact of the BER on all three segments of the market: distribution of new cars, car service and repair, and spare parts. The full report is accessible via the Commission website.**

The LE study is the first comprehensive evaluation of the impact of the regulation. It is unique in covering developments in the markets for car distribution, service and repair, and spare parts in 12 countries over the period 1997 to 2004.

The study is based on a wide range of sources, including a survey of market participants conducted under the European Commission's investigative powers (Article 18), which allows an unusually high level of detail and reliability.

Figure 1: Car parc growth, 1997-2004.



Note: EU25 = 1997-2003;
Sources: national associations; Eurostat.

Europe is the world's most important market for new cars and accounts for 42% of worldwide new car registrations. The European car parc grew by 14.9% between 1997 and 2004.

Interbrand competition increases

A number of factors suggest that competition between car manufacturers on the European market is increasing. The market continues to attract new entrants and the market shares of leading manufacturers have fallen. Overall market concentration has been decreasing.

Manufacturers scale back their distribution networks

The number of dealerships in the 12 countries decreased by 5.3% annually between 1997 and 2004. This large-scale rationalisation of dealer networks has been effected primarily through closure of sub-dealerships. Although this process began as early as 2000, it has accelerated with the introduction of the BER.

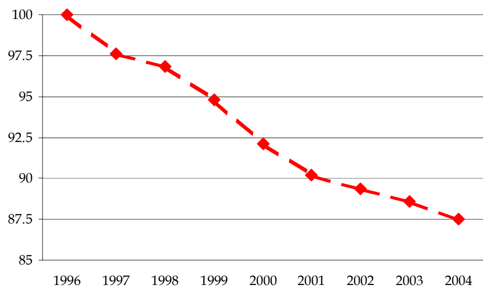
Multi-brand dealer groups on the rise

Despite the overall reduction in dealer numbers, groups of dealerships, who enjoy advantages when it comes to meeting increasingly stringent manufacturer standards, increased in size and in number. Typically, it is such dealer groups that are making the most use of the increased opportunities for multibranding that the BER introduced.

The emergence of large dealer groups coupled with lower network density might have reduced competition among dealers. At the same time, efficiency gains resulting from larger units are likely to be passed on to consumers, especially in a situation where competition between vehicle manufacturers can exercise an effective constraint on dealers of competing brands.

The significant reduction in real car prices over the sample period provides evidence for a healthy state of competition in the market for new cars.

Figure 2: Evolution of real car prices, 1996=100.



Source: Eurostat.

The situation in the market for car repair and service is more complex, and of particular importance is the evolution of the state of competition between authorised and independent operators.

Repair market stagnant

The market size for car service and repair in the EU has been stable over recent years, although cross-country variation is significant. This is the result of opposing forces: a growing car parc and more complex vehicle technology resulting in faults that are often more costly to resolve on the one hand, and a reduction in the frequency of repairs, driven by the increasing reliability of cars and ongoing improvements in road safety on the other hand. On balance, many observers believe the market to be in long-term decline.

Authorised and independent repairers are exiting the market at an increased rate

The number of authorised repairer outlets fell by 18% since 1997, with 2/3 of this change occurring over the last 3 years.

However, stand-alone authorised repairers have seen significant growth and represent over 20% of all repairer outlets in a number of countries.

At the same time, competitive pressures on traditional independent garages have been increasing. Added pressure comes both from authorised competitors, who are now able to operate on a stand-alone basis and offer multibrand service, and ex-sub-dealers who are leaving the authorised networks and becoming independent. Turnover growth in the independent sector has been low compared with the authorised sector.

Evidence for this can be found in the fact that the number of independent repairers has been falling by 2.9% between 1997 and 2003), despite the fact that a significant proportion of ex-sub-dealers continued operating as independents. There is evidence that the reduction in independent repairer numbers is accelerating. However, across Europe overall, independents still outnumber authorised repairers by 5 to 1.

Technical information still a major problem for independent repairers

A crucial competitive advantage in the ever more computerised service and repair business is the access to up-to-date technical and diagnostic information. This information is typically owned by car manufacturers, who have so far proved reluctant to grant full and timely access to independent repairers. Independents thus face continuing difficulties in trying to compete with authorised repairers, especially in high-value services for new cars.

Strong growth for independent repairer groups

Another important development has been the emergence of independent repairer groups, which, often in collaboration with parts distributors, parts manufacturers and even vehicle manufacturers, are able to replicate some of the scale-advantages enjoyed by authorised networks.

So far, consumers have seen prices for car service and repair increasing. Partly this is a result of the greater complexity of service and repair for modern cars. However, persistent price differences between authorised and independent providers indicate that competition in the market is not yet working in a satisfactory manner.

Authorised distributors supply 90% of the parts used by authorised garages.

The spare parts market is characterised by a greater number of different participants than the other two markets covered by the study. It consists of parts producers, which can be vehicle manufacturers, original equipment suppliers and non-original equipments suppliers; and parts distributors, which can be authorised or independent, and operate on the wholesale and/or retail level.

Authorised distributors (which are typically dealers and/or repairers at the same time) enjoy privileged access to car manufacturers' captive parts. The existence of integrated ordering and catalogue systems means that they have a largely captive market in authorised garages.

Car manufacturers step up their involvement in parts distribution

Despite representing only one percent of all parts distributors, manufacturer-owned parts distributors, typically offering parts distribution only, are gaining importance. Their turnover has seen a disproportionate increase of 50% on average over recent years.

Our survey of independent parts distributors' associations revealed certain areas of concern about anti-competitive behaviour on the part of car manufacturers. Principal, among them are concerns about car manufacturers' leverage over original equipment suppliers (OES): these may be reluctant to supply independents, so as not to jeopardise their relationship with car manufacturers. Other concerns relate to contracts and pricing policies that leverage car manufacturers' dominant position with respect to captive parts to force sales of competed parts. Still, the independent aftermarket represents a very important market for OESs.

60% of OESs' sales go to the independent aftermarket

Consequently, independent distributors continue to operate successfully by supplying independent repairers.

As in the market for service and repair, consumers have not benefited from lower prices. However, demand for spare parts by large insurance and leasing companies, which show a growing interest in the parts business, is likely to bring some discipline to parts pricing.

Conclusions

Overall, the picture of the competitive landscape in the car sector since the introduction of the BER is mixed. Whereas competition seems to be working well, and to the benefit of consumers, in the market for new cars, there are concerns about the service and repair market and the parts market.

Car manufacturers and their authorised networks enjoy competitive advantages in those markets. There are indications that these advantages are being maintained by practices that hinder access to technical information to competitors, or pricing policies which have the effect of tying purchases of captive parts and competed parts.

Overall, the BER seems to have facilitated pro-competitive practices in the market. However, areas of concern, especially in the markets for service and repair and spare parts remain.

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* http://ec.europa.eu/comm/competition/car_sector/distribution.