

Completed acquisition by Roanza Group Limited of Enza Limited and Robert Smith Group Limited

ME/6479-14

SUMMARY

1. Enza Group Limited (**Enza**) and Road Range Limited (**Road Range**, and together with Enza, the **Parties**) are both companies operating Mercedes Benz (**MB**) franchised dealerships in the North-West of England and are active in the supply of: (i) new and used MB commercial vehicles (namely trucks and vans); (ii) repair and maintenance services; and (iii) original equipment manufacturer (**OEM**) vehicle parts manufactured by MB.
2. Enza has dealerships in Trafford Park, East Manchester, Warrington and Stoke-on-Trent. Road Range has dealerships in Liverpool, Deeside and Llandudno.
3. The directors of Enza and Road Range incorporated Roanza Limited (**Roanza**) which acquired the share capital of Enza and the share capital of the parent company of Road Range, Robert Smith Group Limited (**Robert Smith**), under the terms of a share purchase agreement (the **Merger**).
4. The Competition and Markets Authority (**CMA**) considers that the Parties are 'enterprises' that have ceased to be distinct as a result of the Merger and that the share of supply test is met. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
5. The Parties overlap in the supply of: (i) new and used MB trucks and vans; (ii) the provision of repair and maintenance services for MB trucks and vans; and (iii) the supply of OEM vehicles parts in the Greater Manchester and Merseyside areas.
6. In relation to each of these areas of overlap, the CMA concludes that the Merger does not give rise to a realistic prospect of a substantial lessening of competition because, inter alia, the Parties imposed only a weak competitive constraint on each other pre-merger and the Parties will continue to face sufficient constraints from other competitors.

7. The CMA therefore **will not refer** this Merger for a phase 2 investigation under section 22(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

8. Roanza is a company registered in the United Kingdom. It was established for the purpose of acquiring Enza and Robert Smith.
9. Enza is an MB franchised dealership with operations across the North-West of England and North Wales. It is active in the sale, repair and maintenance of new and used MB commercial vehicles (namely trucks and vans) and the sale of OEM vehicle parts manufactured by MB. Enza has premises in Trafford Park, East Manchester, Warrington and Stoke-on-Trent. Enza's UK turnover in 2013 was £[].
10. Robert Smith is the parent company of Road Range. Road Range is an MB franchised dealership with operations across the Merseyside and North Wales. It is also active in the sale, repair and maintenance of new and used MB commercial vehicles (namely trucks and vans) and the sale of OEM vehicle parts manufactured by MB. Road Range has premises in Liverpool, Deeside and Llandudno. Road Range's UK turnover in 2013 was £[].

Transaction

11. Roanza acquired the entire share capital of Enza and Robert Smith on 15 July 2014 under the terms of two share purchase agreements.

Jurisdiction

12. Each of Enza and Road Range constitutes an 'enterprise' for the purposes of section 23 of the Act.
13. As a result of the Merger, Enza and Road Range have ceased to be distinct.
14. Enza and Road Range overlap in the supply of: (i) new and used MB trucks and vans; (ii) repair and maintenance services for MB trucks and vans; and (iii) OEM vehicle parts to MB trucks and vans. These goods and services are supplied through the Parties' MB franchised dealerships in MB's designated

Areas of Influence (**AOIs**)¹ which includes the Greater Manchester and Liverpool areas.ⁱ

15. Sections 23(3) and 23(4) of the Act state that the share of supply test is measured on the basis of supply in the UK or a substantial part of the UK. A substantial part of the UK has been found to refer to an area of such size, character and importance as to make it worth consideration for the purpose of merger control.²
16. In previous decisions, the CMA's predecessors, the Competition Commission (**CC**) and the Office of Fair Trading (**OFT**),³ considered such factors as population size and the local nature of the markets in question as relevant to the question of whether a particular area was a substantial part of the UK.⁴ The CMA considers that the AOIs, which cover an area comprising the Greater Manchester and Liverpool conurbationsⁱⁱ, are substantial parts of the UK, with Greater Manchester alone having an estimated population of 2.7 million.⁵
17. Enza estimates that the Parties' combined share of supply is 39% for the sale of new MB trucks in the AOIs in 2013.ⁱⁱⁱ The CMA therefore considers that the share of supply test in section 23 of the Act is met.
18. The Merger was not notified to the CMA by the Parties. A press release relating to the Merger was published on Enza's website on 28 July 2014. The CMA began an own-initiative assessment of the Merger on 15 September 2014 by issuing an enquiry letter under section 109 of the Act. The four-month statutory deadline, as extended under section 25(2) of the Act,⁶ is 12 December 2014.
19. On 20 October 2014, the CMA informed Enza that it had sufficient information to enable it to begin an investigation into the Merger for the purpose of deciding whether to make a reference. The statutory 40 working day deadline

1 AOIs are geographic areas determined by Mercedes Benz within which each of its franchisees operate. Each franchisee has a designated AOI surrounding their dealerships and there is no overlap of AOIs. Franchisees are free to make sales outside of their own AOI.

2 CMA's *Mergers – Guidance on the CMA's jurisdiction and procedure* (CMA2), paragraph 4.61.

3 The CMA was established on 1 October 2013. By virtue of the Enterprise and Regulatory Reform Act 2013 and the Enterprise and Regulatory Reform Act 2013 (Commencement No 6, Transitional Provisions and Savings) Order, No 416 of 2014, the merger control functions of the OFT and CC were transferred to the CMA on 1 April 2014.

4 See: CC, A report on the *completed acquisition by Stagecoach Group plc of Preston Bus Limited* dated 11 November 2009; *completed acquisition by the Midcounties Co-operative Limited of Tuffin Investments Limited* (2012), paragraph 19.

5 '2014 Mid-Year Estimates' by Manchester City Council website.

6 The CMA notified the Parties under s.25(2) of the Act on 17 September 2014 and 23 September 2014 respectively.

under section 34ZA of the Act for the CMA to announce its decision whether to refer the Merger for a phase 2 investigation is therefore 12 December 2014.

20. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

Counterfactual

21. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (that is, the counterfactual). In practice, for completed acquisitions, the CMA generally adopts the pre-merger conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess a merger against an alternative counterfactual where, based on the evidence available to it, it considers that, in the absence of the merger, the prospects of prevailing (or pre-merger) conditions of competition continuing is not realistic or where there is a realistic prospect of a counterfactual that is more competitive than prevailing (or pre-merger) conditions, as between the merging parties.⁷
22. The Parties submitted that as part of their discussions with MB in relation to its proposed business strategy, MB informed the Parties that it wished to reduce the number of MB franchised dealerships in the North-West of England and that in order to achieve this aim it would be necessary for Enza and Road Range to merge. In addition, the Parties submitted that MB had indicated to the Parties that in the event that they did not merge, it would terminate their existing franchise agreements.
23. The Parties therefore submitted that, in the absence of the Merger, there would only be one MB franchised dealership offering services in the North-West (ie one of the Parties would have exited).^{iv}
24. The CMA contacted MB to verify the Parties' submissions. MB informed the CMA that the proposed business strategy put forward by MB to its franchise partners was not prescriptive and has provided a copy of the prospectus to support this. MB also informed the CMA that it is bound by the franchise agreements that it has with the Parties and therefore any termination would be subject to the terms of these agreements.

⁷ See *Mergers Assessment Guidelines*, paragraph 4.3.5 et seq.

25. As a result, the CMA does not consider MB to have directed the Parties to merge on the understanding that not to do so would have resulted in the termination of the Parties' franchise agreements.
26. The CMA has therefore adopted the pre-merger conditions of competition as the relevant counterfactual in this case.

Product frame of reference

27. The CMA considers that market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of a merger, as it is recognised that there can be 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.⁸
28. The CMA's approach to market definition is to begin with the overlapping products of the Parties, taking this as the narrowest plausible candidate product market and then to see if this can be widened on the basis of demand-side substitution.⁹
29. The Parties overlap in the supply of:
 - new MB trucks;
 - used MB trucks;
 - new MB vans;
 - used MB vans;
 - repair and maintenance services for new and used MB trucks;
 - repair and maintenance services for new and used MB vans; and
 - MB OEM vehicle parts for MB trucks and vans.

⁸ *Merger Assessment Guidelines*, paragraph 5.2.2.

⁹ This approach is in line with the CMA's *Merger Assessment Guidelines*, paragraphs 5.2.6ff.

Sales of MB trucks and vans

Segmentation between new and used MB trucks and vans

30. New MB trucks and vans are available only through MB franchised dealerships. This is similar to the arrangements discussed in previous CMA and OFT merger cases concerning car dealerships.¹⁰ The CMA notes that used trucks and vans are available through a number of other outlets, such as independent vehicle sellers (including private sellers) as well as other MB franchised dealerships.
31. The CMA has previously found differences between the demand for new and used cars.¹¹ In this case, the CMA received some evidence that customers have different demands for new and used commercial vehicles because they make replacement purchases when the warranty on their existing trucks and vans expires in order to ensure that they are continually covered by a manufacturer's warranty. This suggests that these customers do not consider new and used commercial vehicles to be alternatives as it is not possible to purchase a manufacturer's warranty at the point of sale for a used truck or van.
32. On a cautious basis, the CMA has therefore assessed the impact of the Merger on new and used MB trucks and vans separately.

Segmentation between MB trucks and vans

33. Trucks and vans are available in a number of different sizes and types, including light-duty, medium-duty and heavy-duty trucks, and small, medium and large vans. The CMA has therefore considered the extent to which MB trucks and vans could be considered part of the same frames of reference.
34. In past cases, the European Commission (**Commission**) has segmented trucks from vans. It has also segmented trucks on the basis of different sizes.¹² The Parties' internal documents classify trucks and vans separately.¹³

10 See, for example, the completed acquisition by JCT600 Limited Group of Gilder Group Limited (2013) (*JCT/Gilder*) paragraph 10 and 12 and the completed acquisition by Ridgeway Garages Limited of Parkview Skoda (2014) (*Ridgeway/Skoda*).

11 *Ridgeway/Skoda*, paragraphs 12 to 14 though the CMA did not find it necessary to conclude on the product scope in this regard.

12 *COMP/M 4336 – MAN/Scania* paragraphs 15 and 16 and confirmed by *COMP/M. 6267 – Volkswagen/MAN*.

13 Numerous references in the Parties submissions such as '*Competitive Analysis*' document dated 2 November 2014.

35. From a demand-side perspective, although some customers purchase both trucks and vans, a number of customers indicated that their businesses operate one or the other, with trucks and vans typically fulfilling different functions due to their different sizes.
36. From a supply-side perspective, the CMA notes that the majority of truck and van suppliers provide a number of models and sizes across the full range of vans and trucks. In addition, the CMA understands that a number of car dealerships also supply vans (but not trucks). The fact that the same firms appear to be competing to supply trucks and vans and the conditions of competition between these firms are the same for each product (ie each type of MB van and each size of MB truck) are factors that can lead the CMA to aggregate narrow markets together on the supply-side. No third party indicated that the conditions of competition differed substantially for MB trucks and vans. Third parties also did not indicate that there was any significant difference in the competitive conditions for trucks and vans of a particular size.
37. The available evidence indicates that from a demand-side perspective customers do not generally consider trucks and vans to be substitutable. While there are indications that a number of suppliers are able to provide the full range of trucks and vans, the CMA has considered the relevant frames of reference for the supply of trucks and vans separately but has not further segmented either MB trucks or MB vans by size.

Other marques of trucks and vans

38. In past cases relating to cars, the OFT considered segmenting the market by marque but did not conclude on this.¹⁴
39. Enza's internal documents indicate that Enza has targeted customers operating [X] trucks.¹⁵ In addition, these documents indicate that Enza lost new truck customers to [X], [X], [X], [X] and [X] dealerships.¹⁶ The CMA has not been able to verify with [X] or with franchises for other marques whether they also targeted customers who only operated MB trucks or whether these franchises have lost customers to MB.

¹⁴ *JCT/Gilder and the completed acquisition by Inchcape plc of European Motor Holdings plc* (2007), paragraph 11.

¹⁵ Enza Board Minutes from October 2013.

¹⁶ Enza Board Minutes from January 2014, March 2014.

40. Enza's internal documents contain less detail in relation to the main competitors for potential van customers. [REDACTED] was mentioned in these documents as a main competitor for one customer for new vans.¹⁷ MB informed the CMA that a number of competitors produce a wide range of trucks and vans of different specifications. In addition, MB informed the CMA that it uses publically available sources and customer feedback to monitor the competitive developments within the trucks and vans marketplace, including pricing campaigns, product launches and innovations from competitors.¹⁸
41. One MB franchised dealership told the CMA that if the price of MB trucks was to increase by 5% relative to other marques, it would lose a large proportion of its sales to other marques of trucks. This was the same for vans.
42. Several customers informed the CMA that they operate mixed marque fleets or have used different marques in the past. Therefore, the CMA considers that there is likely to be strong demand-side competition between different marques of trucks. This is the same for vans.
43. Since no competition concerns arise in relation to the supply of new or used trucks or in relation to the supply of new or used vans on any basis, it has not been necessary to conclude on whether all marques should be included in the same product frame of reference. Nevertheless, for the purposes of its competitive assessment, the CMA has taken into account any competitive constraint imposed by other marques for the sale of new and used vans and trucks, and for the supply of repair and maintenance services for vans and trucks.

Segmentation by different customers sizes

44. Both Parties supplied new and used MB trucks and vans to a range of customers, from customers operating a single van or truck to customers with more than 25 vehicles.
45. The largest fleet customers purchase directly from MB and the Parties did not overlap in relation to these customers.
46. The CMA has found little evidence that the relevant frame of reference for the supply of trucks and vans varies substantially according to the size of the customer.

¹⁷ Enza Board Minutes November and December 2013.

¹⁸ [REDACTED].

47. Based on the above, the CMA has not assessed the competitive effects of the Merger on the basis of the sale of new and used trucks segmented by size of customer.

Repair and maintenance services for MB trucks and vans

48. The Parties overlap in the supply of repair and maintenance services for new and used MB trucks and vans as well as other marques. The Parties submitted that [0–10]% of Enza’s repair and maintenance service sales revenue was attributable to providing these services to trucks and vans of other marques.
49. The Parties submitted that ‘around 30% of vehicles’ were sold with an MB fixed-price repair and maintenance package (**MB Service Packages**).¹⁹ However, the CMA considers that customers would require repair and maintenance services for works beyond those covered under the fixed-price Service Packages.²⁰ This would be particularly true if the customer operates the truck or van for a number of years.
50. Therefore, on a cautious basis, the CMA has considered the effect of the Merger on repair and maintenance services separately for used MB trucks and vans, and separately for the sale of new and used MB trucks and vans.
51. The Parties submitted that the repair and maintenance services provided by MB franchised dealerships fall into three categories:
- Repairs (including required workshop parts) undertaken whilst vehicles are under MB’s warranty where the works are under the scope of the warranty and the costs are paid by MB (**Warranty Works**).
 - Repairs and servicing (including required workshop parts) undertaken whilst the vehicle has a MB Service Package where the works are under the scope of that Service Package and the costs are paid by MB (**Service Package Works**).
 - Repairs, servicing and required workshop parts where the cost is met by the customer because that customer is outside of warranty or the

¹⁹ Letter from the Parties dated 25 September 2014. MB Service Package offers fixed-price servicing and repair across MB’s nationwide dealership network, ranging from basic repair works to more extensive repairs and maintenance services.

²⁰ MB Service Packages are: ‘Van/Truck service contract complete’, ‘Van/Truck managed service’ and ‘Van only service care’. These Service Packages cover a range of repair and maintenance services for a fixed mileage and time period and are available on a nationwide or local basis. Repair and maintenance costs and parts under the Service Packages are reimbursed to the dealership by MB.

customer's vehicle does not have a Service Package or if the repair is not covered by an existing Service Package or warranty (**repair and maintenance services**).

52. The CMA has considered below whether the frame of reference for repair and maintenance services should be further segmented according to whether the truck or van is under warranty.

Segmentation between MB trucks and vans

53. The Parties submitted that it is a Ministry of Transport requirement that trucks are inspected every six weeks whereas, in contrast, the service requirements for vans are similar to cars, either every year or around every 20,000 miles.²¹ This was confirmed by third parties although there was some divergence on the exact length of time needed between each inspection. All third parties confirmed that trucks are serviced much more frequently than vans.
54. Third parties also informed the CMA that the space required to perform repair and maintenance services on trucks was much larger than that for vans, and that trucks require different expertise. As a result, there are different suppliers of repair and maintenance services for trucks and vans.
55. On this basis, the CMA considers that the supply of repair and maintenance services to trucks and the supply of repair and maintenance services to vans form separate frames of reference. However, for the purposes of its competitive assessment, the CMA has conducted its assessment of these frames of reference in tandem on the basis that the supply of repair and maintenance services to MB vans and the supply of repair and maintenance services to MB trucks are offered by the same firms.

Segmentation according to whether the truck or van is under warranty

56. In previous cases involving car dealerships, the OFT and the CMA found that the market for repair and maintenance services varied significantly depending upon whether the car was under warranty or not.²²
57. The Parties submitted that all MB trucks and vans are sold with a warranty of between two and three years. Warranty Works (as defined above) are paid for

²¹ 'Competitive Analysis' document dated 2 November 2014.

²² The completed acquisition by Eden Limited of 2 car dealerships from Riders Garages Limited (2014), Ridgeway/Skoda (2014).

by MB and a customer can take a vehicle to any MB franchised dealership for Warranty Works.²³

58. The Parties submitted that the market for repair and maintenance services was the same irrespective of whether the trucks were under warranty or not. This was the same for vans.
59. Some competitors told the CMA that there might be a slight tendency for customers to choose a franchised dealership for repair and maintenance services whilst the vehicle was under warranty. However, they also stated that customers could and did use non-franchised suppliers for repair and maintenance services. MB told the CMA that it would not invalidate the warranty on a MB vehicle as long as the 'parts (and labour) are of good quality'.²⁴
60. The CMA received little evidence from customers of a significant difference in the market for repair and maintenance services, whether the vehicle was under warranty or not. Therefore, the CMA has assessed the competitive effects of the Merger on repair and maintenance services of new and used MB trucks and vans regardless of whether the vehicle is under warranty.

Segmentation by van or truck size

61. The CMA received no evidence from the Parties that the supply of repair and maintenance services to vans and the supply of repair and maintenance services to trucks should be segmented by the size of vehicle.
62. One third party told the CMA that the size of van or truck would not make a significant difference in identifying the Parties' main competitors for repair and maintenance services for trucks, and repair and maintenance services for vans.
63. Therefore, the CMA has not segmented the market further than repair and maintenance services for new and used MB trucks, and repair and maintenance services for new and used MB vans in this case.

²³ 'Competitive Analysis' document dated 2 November 2014.

²⁴ [REDACTED].

Self-supply

64. The Parties argued that a number of customers self-supplied all of the repair and maintenance services on their trucks and vans in-house.²⁵
65. The CMA generally only includes self-supply in the relevant market if the ability of customers to choose this option affects the profitability of a price rise by the hypothetical monopolist.²⁶
66. In this case, a number of customers told the CMA that they self-supplied at least some of the repair and maintenance services on their own fleets. One large-fleet customer told the CMA that it self-supplied almost all repair and maintenance services on its own fleets.
67. However, the vast majority of customers only undertook non-essential repairs (eg changing lights) as they do not have facilities or trained staff to do more extensive repairs and it would not be feasible to make the necessary investments.²⁷ This suggests that few customers would switch away from the Parties to self-supply in the event of a small price rise, particularly in the case of smaller customers.
68. Therefore, on a cautious basis, the CMA has not included self-supply in the relevant frame of reference for repair and maintenance services for new and used MB trucks and repair and maintenance services for new and used MB vans.

OEM vehicle parts for MB trucks and vans

69. The Parties overlap in the supply of OEM vehicle parts for trucks and vans to independent service centres, customers who carry out their own repair and maintenance services, retail customers and other MB franchised dealerships.
70. The Parties submitted that non-OEM vehicle parts are offered by a large range of suppliers (including those operating through the internet) and are substitutable for OEM vehicle parts.
71. The CMA understands that MB sets the price for its OEM vehicle parts. MB told the CMA that it would not invalidate the warranty on a MB vehicle as long as the non-OEM vehicle 'parts (and labour) are of good quality'.²⁸

²⁵ 'Competitive Analysis' document dated 2 November 2014.

²⁶ *Merger Assessment Guidelines*, paragraph 5.2.20.

²⁷ Customer response [REDACTED].

²⁸ [REDACTED].

72. The CMA received mixed evidence from third parties on the extent to which non-OEM vehicle parts are substitutable for OEM vehicle parts. One customer told the CMA that it only purchased OEM vehicle parts and that it would not switch to non-OEM vehicle parts even if the price of OEM vehicle parts was to increase by 5%. Another customer told the CMA that they always use OEM vehicle parts in engine internals and suspension for reliability and safety reasons and non-OEM vehicle parts for other non-essential repairs as they are cheaper. Some customers indicated that they would switch to non-OEM vehicle parts if the price of OEM vehicle parts increased by 5%.
73. This evidence suggests that for at least some customers, an increase in the price of OEM vehicle parts would not be constrained by the price of non-OEM vehicle parts.
74. On a cautious basis, the CMA has therefore assessed the impact of the Merger on the supply of OEM vehicle parts only.

Conclusion on product frame of reference

75. The CMA has assessed the Merger against the following frames of reference:
- Supply of new MB trucks.
 - Supply of used MB trucks.
 - Supply of new MB vans.
 - Supply of used MB vans.
 - Supply of repair and maintenance services for new and used MB trucks.
 - Supply of repair and maintenance services for new and used MB vans.
 - Supply of MB OEM vehicle parts for MB trucks and vans.
76. For the purposes of the competitive assessment, the supply of new MB trucks and the supply of new MB vans are considered in tandem as new MB trucks and MB vans are only available from MB franchises dealerships and the dynamics of competition as between the Parties.
77. The supply of used MB trucks and the supply of used MB vans are also considered in tandem as the same firms appear to compete to supply trucks and vans.

78. The supply of repair and maintenance services for new and used MB trucks and the supply of repair and maintenance services for new and used vans are also considered in tandem as the Parties supply these services from nearly all of their sites and were unable to provide separate data on each segment.

Geographic frame of reference

79. The Parties submitted the geographical locations of 80% of their customers by value for each overlapping service.²⁹ The Parties also submitted estimates of the geographical area within which 80% of these customers were located. These areas are referred to in this decision as the 'catchment areas'.³⁰

Supply of new and used MB trucks and vans

80. The Parties submitted that the estimated 80% catchment areas of new truck, new van, used truck and used van sales for both Parties were, on average, approximately 200 miles. The Parties were not able to provide this data at an individual site level.³¹
81. Customers of all sizes confirmed that they would be willing to purchase MB trucks and vans from a wide area. The maximum distance that customers were willing to travel varied between 100 miles to UK-wide. Other MB franchised dealerships told the CMA that the relevant frame of reference for the sale of new and used trucks and vans was likely to be national.
82. Given that the CMA has not found competition concerns to arise on any plausible frame of reference, it has not been necessary to conclude on the geographic scope of the supply of new and used trucks and the supply of new and used vans.
83. For the purpose of this case, the CMA has assessed the Merger on the basis of the 80% catchment areas for the Parties centred on each of the Parties' sites for the supply of new and used trucks and the supply of new and used vans (ie 200 miles).

29 The Parties provided information of 80% of customers by value; this was then taken as a representative sample of the Parties' total customers.

30 Catchment areas are often used by the CMA, and were used previously by the OFT and the CC. See for example OFT *Ridgeway/Skoda* (2014).

31 Letter from parties dated 13 October 2014

Repair and maintenance services for new and used MB trucks and vans

84. In previous cases involving car dealerships, the CMA found the market for the repair and maintenance services to be local in nature.³² Similarly in this case, customers told the CMA that they would be willing to travel up to 15 miles. This is mainly due to the costs (particular fuel and driver costs) and also to minimise the downtime of the vehicles they operate.
85. The catchment areas submitted by the Parties varied in size for each site, with the smallest being just over five miles and the largest being 19.5 miles in the Deeside area. The catchment areas for the two closest Road Range and Enza sites, Road Range Liverpool and Enza Warrington, were 11 miles and 9.5 miles, respectively.
86. The CMA has found no examples from the internal documents of Enza and the customer loss data from the Parties of customers switching between suppliers that was significantly further away from their incumbent supplier.³³
87. Customers provided mixed views on the distance that they would be prepared to travel for repair and maintenance services if their current supplier was to increase prices by 5%. Several customers told the CMA that they would only be willing to travel 'down the road' or 'a few miles', whilst others told the CMA that 15 miles would be the maximum distance.³⁴
88. The CMA considers that it has not received evidence to suggest that it should depart from the use of its 80% catchment area methodology or to use a different approach to the geographic frame of reference.
89. Therefore, in this case, the CMA has assessed competition for the supply of repair and maintenance services to new and used MB trucks and vans on the basis of an 80% catchment areas centred on each Road Range and Enza site.

OEM vehicle parts for new and used MB trucks and vans

90. In previous cases involving the supply of OEM vehicle parts to cars, the OFT considered the frame of reference to be national in nature.³⁵

³² For instance, *JCT/Gilder* paragraph 50, *Ridgeway/Skoda* paragraph 33.

³³ Customer loss data received 7 November 2014.

³⁴ [REDACTED].

³⁵ The completed acquisition by Lookers Group plc of Shields Land Rover (2013).

91. The Parties submitted that the geographic market for OEM vehicle parts is wider than that for repair and maintenance services as the OEM vehicle parts are delivered to customers. They argued that daily delivery services and the use of lock-up facilities a significant distance from franchised dealership locations has resulted in the growth of a much larger customer base. This was evidenced by Enza Board Minutes.³⁶
92. The Parties did not provide calculations of the 80% catchment areas. The sales data for Warrington (excluding internet sales) showed that customers for that site were located between its immediate proximity and up to 100 miles away. In addition, evidence from the Parties on lost customers indicated that the Parties lost customers to [X] and [X], competitors between 40-60 miles away.³⁷
93. Customers told the CMA that the Parties do not charge a fee for delivering parts therefore distance did not affect their choice of dealership.
94. Other MB franchised dealerships told the CMA that as long as it is cost effective to do so, they would deliver to a wide area. The vast majority said they would deliver within 40 miles. In one case, the dealership told the CMA that it would deliver nationwide for large orders. The CMA was informed by one dealership that customers would be likely to switch suppliers in response to a 5% price rise.
95. In this case, the CMA has assessed the Merger on a geographic radius of up to 80 miles from each of the Parties' sites. This distance being an average of 60 miles (evidence of customer loss to competitors) and 100 miles (customer location for Warrington site).

Competitive assessment

Horizontal unilateral effects

The sale of new MB trucks and MB vans

96. For the purposes of the competitive assessment, the supply of new MB trucks and the supply of new MB vans are considered in tandem for the reasons set out in paragraph 76.

36 Annex 6 and Board Minutes from March 2013 showed increase in competition for OEM vehicle parts in Manchester.

37 Email from Enza on 06/11/2014 at 12:20.

Closeness of competition

97. The Parties submitted that customers have a choice of 22 MB franchised dealerships across the UK for the purchase of trucks and 23 for vans. The Parties further submitted that each MB franchised dealership is encouraged to sell across the UK and the Parties took steps to market their capability for the sale of new trucks and vans to customers in other dealerships' AOIs.
98. This was supported by customer responses, where the vast majority of customers informed the CMA that they could purchase new MB trucks and vans across the UK.
99. The CMA has not been able to verify with all MB franchised dealerships in the UK whether they compete with the Parties, although the CMA has contacted three who told the CMA that they competed strongly with the Parties for the sale of new MB trucks and vans.

Customer switching

100. Information supplied by the Parties showed that they had lost customers of trucks and vans to other MB franchised dealerships, including [redacted].³⁸
101. It also showed that the Parties have lost a significant number of van and truck sales to other marques. This was supported by responses from third parties who told the CMA that there is a strong level of substitution between different marques. This suggests that other marques of van and truck would continue to exert a competitive constraint on the Parties post-merger.

Customer concerns

102. The CMA received no concerns from customers in relation to the supply of new trucks and vans.

Conclusion on horizontal unilateral effects

103. Given the large catchment areas, the numerous MB franchised dealerships active within the catchment areas of the Parties, the lack of customer concerns and the additional competitive constraint posed by other marques of trucks and vans, the CMA considers that the Merger does not give rise to a

³⁸ Enza Board Minutes from November 2013 and customer loss data.

realistic prospect of a substantial lessening of competition in the supply of new MB trucks and new MB vans.

The sale of used MB trucks and used MB vans

104. For the purpose of the competitive assessment, the supply of used MB trucks and the supply of use MB vans are considered in tandem for the reasons set out in paragraph 76.

Closeness of competition

105. The Parties submitted that customers have a wide choice of suppliers for used MB trucks and vans as the sale of used vehicles are not restricted to franchised dealerships. The Parties identified a number of independent outfits that sell used MB vehicles.

106. This was supported by customer responses, where the vast majority of customers informed the CMA that they could purchase used MB trucks and vans across the UK.

Customer switching

107. There was evidence that the Parties have lost customers to other marques. This was supported by responses from third parties who told the CMA that there is a strong level of substitution between different marques. This suggests that other marques of van and truck would continue to exert a competitive constraint on the Parties post-merger.

Customer concerns

108. The CMA received no concerns from customers in relation to the supply of used trucks or vans.

Conclusion on horizontal unilateral effects

109. Given the wide geographic area where customers may purchase used trucks and vans, the numerous suppliers active in a wide geographic area, the lack of customer concerns and the additional competitive constraint posed by other marques of trucks and vans, the CMA considers that the Merger does not give rise to a realistic prospect of a substantial lessening of competition in the supply of used trucks and used vans.

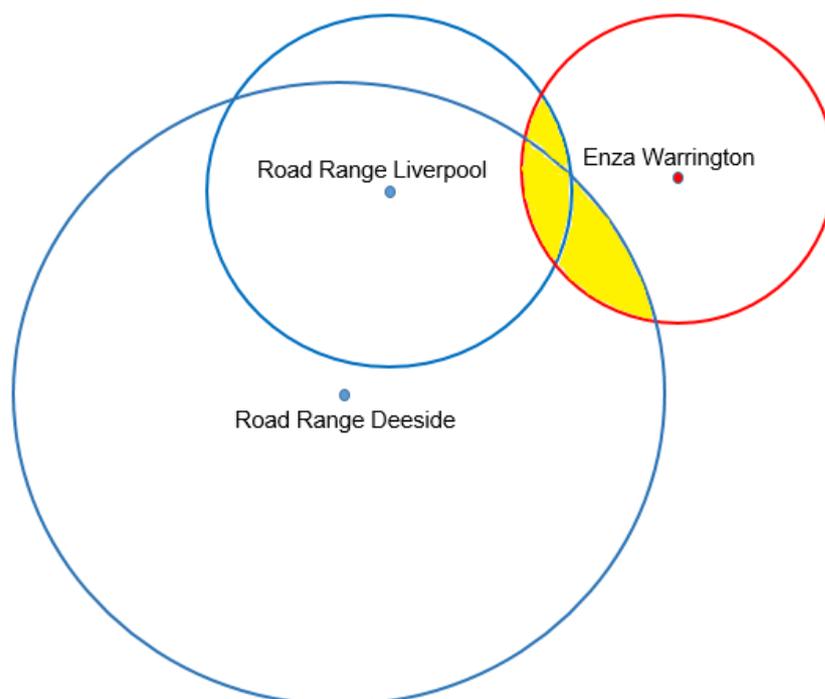
Repair and maintenance services

110. The CMA considers that the supply of repair and maintenance services to new and used MB trucks and the supply of repair and maintenance services to new and used MB vans form distinct frames of reference. However, given that the Parties supply both services from nearly all of their sites and were unable to provide separate data for both services, the repair and maintenance services for new and used MB vans and trucks are considered in tandem below.

Shares of supply

111. Based on the 80% catchment areas of the Parties' sites, there is a limited overlap between Road Range's Liverpool and Deeside sites and Enza's site in Warrington.

112. Enza's Warrington site is around 19 miles from Road Range's Liverpool site and around 30 miles from Road Range's Deeside site. The 80% catchment areas for Road Range's sites in Liverpool and Deeside are 11 miles and 19.5 miles, respectively. Enza's Warrington site has a catchment area of 9.5 miles. The diagram below (not to scale) shows the catchment areas and the areas in which the Parties' overlap in their supply of repair and maintenance services to customers are highlighted for ease of reference. The CMA has not been able to estimate shares of supply for repair and maintenance services for the Parties in the overlapped areas highlighted in yellow.



113. MB provided the CMA with some information regarding the number of customers that returned to Enza and Road Range for at least one repair or maintenance event per annum following a purchase of a truck or van. This was used as a proxy for the number of trucks and vans in an area that use repair and maintenance services. In the case of Enza, [REDACTED]% of customers who purchased trucks from Enza returned to an Enza site for repair and maintenance services. This figure was [REDACTED]% for vans.
114. For Road Range, [REDACTED]% of truck customers and [REDACTED]% van customers returned to a Road Range site for repair and maintenance services.³⁹ This percentage is also indicative of the extent to which the Parties have been able to capture potential available customers within their own AOIs.
115. However, the above measure only captures the extent to which customers returned to the dealership for a repair and maintenance service (however small) and it therefore does not measure the total revenue of potential repair and maintenance service sales. The CMA therefore considers that whilst it provides some indication of how many trucks or vans were using the Parties for repair and maintenance services, it provides little indication of their market share in the area by value.
116. MB also provided the CMA with an estimated percentage achieved by the Parties of the total repair and maintenance service sales in an AOI. This total revenue for an AOI (or potential revenue) for repair and maintenance service sales was estimated using the number of trucks and vans registered in the AOI multiplied by an estimated average customer spend per truck or van extrapolated from the average customer spend under an MB Service Package. The Parties' share was calculated by dividing the total potential revenue of repair and maintenance service sales within the AOI by each Party's actual revenue of repair and maintenance service sales.
117. MB estimated that Enza achieved [REDACTED]% of potential repair and maintenance service sales for trucks in its AOI and [REDACTED]% for vans. For Road Range, this was [REDACTED]% for trucks and [REDACTED]% for vans.⁴⁰
118. The CMA considers that there are a number of reasons to be cautious about the interpretation of these figures. First, the number of truck or van registrations in an area may not accurately reflect the number of active vehicles in that area, for example vehicles could move away after registration (so-called 'fleet shift'). Secondly, the figures are based on average revenues

39 [REDACTED].

40 Ibid. Based on 2013 data.

collected by dealerships and therefore assumed that each and every truck or van required the same amount of repair and maintenance service spend. This might not have been the case if, for example, there are underlying and unknown factors that affected the customer's decision to use a dealership unrelated to the Parties' quality and price. Nonetheless, the CMA considers that the percentage of total potential repair and maintenance service sales achieved by the Parties provides an indication of their overall market share in their respective AOIs.

119. In addition, MB told the CMA that other MB franchised dealerships achieved up to [X]% of potential repair and maintenance service sales available in their AOIs in the same period. The CMA considers that this data provides some measurement of the competitive strength between the Parties [X] though only limited weight could be placed on this information. The CMA has been unable to undertake further analysis into the figures to understand their underlying robustness.
120. Whilst the figures above suggest that there are a number of other options for customers with repair and maintenance requirements in any given area, the CMA is mindful that, consistent with third party responses, there are certain types of work for which a customer is much more likely to use an MB franchised dealership, such as for a complex repair.
121. In previous cases involving franchised car dealerships, the CMA focused its investigation on the competitive effects of the merger on repair and maintenance services other than the Warranty Works as defined above.⁴¹
122. The CMA has been unable to obtain data to assess whether market share information would differ substantially according to whether the vehicle is under warranty (ie for new vehicles only). In this case, the cost of Warranty Works and Service Package Works (as defined above) are met by MB rather than the customer. Therefore, the CMA has focused on the repair and maintenance services (as defined above) for new and used vehicles.
123. The CMA has been unable to obtain data to assess whether market share information would differ substantially for different sized customers. Third party responses did not provide evidence to suggest that market shares would vary significantly, although, as discussed above, the Parties were likely to have a higher market share for repair and maintenance services for vehicles that are under warranty than those that are not under warranty.

⁴¹ *Ridgeway/Skoda (2014)*.

Closeness of competition between the Parties

- *Geographic overlap*

124. The CMA notes that, based on the Parties' 80% catchment areas (see diagram above), there is only a small overlap between the Parties' activities and there were not a significant number of customers located between Road Range's Liverpool and Deeside sites and Enza's Warrington site.⁴²

125. The CMA considers that pre-merger, it was possible that these customers located between the Parties were able to use either Party as an alternative supplier to the other. However, in this regard, the CMA considers the extent to which the Parties were actually competing with regard to available switching data.

126. The CMA considers the small overlap of the Parties' catchment areas is indicative that the Parties were not necessarily competing closely with each other.

- *Views from third parties*

127. The majority of customers informed the CMA that they did not consider Enza and Road Range to be competitors for repair and maintenance services for trucks and vans prior to the Merger. This was mainly due to the fact that customers would choose their nearest MB franchised dealership to minimise the cost and time involved in transporting vehicles and vehicle downtime. Other MB franchised dealerships confirmed to the CMA that they would be unlikely to offer collection and delivery services to customers not located close to their facilities.

128. A number of customers told the CMA that they were not aware of the other Party. No customer suggested to the CMA that they have used Road Range and Enza as competitors against each other in order to obtain a better price.

129. Two customers raised some concerns over the Merger. However, one of these customers was an Enza customer and told the CMA that it would be very unlikely to go to Road Range in the event of a price rise but, absent the Merger, it might have tried to use Road Range's price for negotiations with Enza, although it had never done so in the past. The other potential concern

⁴² 'Competitive Analysis' document dated 2 November 2014.

was raised by a national customer who said that it would be likely to use its closest MB franchised dealerships.

- *Monitoring*

130. The Parties submitted that they did not undertake any formal monitoring of competitors.

131. However, the Parties submitted that the MB website offers a service to customers where a customer can find its nearest five MB franchised dealerships and access an estimated price list for a number of repair and maintenance services for vans. These prices are also available to MB franchised dealerships and the Parties submitted that Enza would periodically, around every six months, check the prices of a number of competitors on the price list to ensure its prices remain competitive. Prior to the Merger, Enza would have included Road Range in its review and vice versa, the review also included other nearby MB franchised dealerships such as [REDACTED].

132. This suggests that whilst there was no formal monitoring by the Parties, the existence of price transparency and nearby MB franchised dealerships might have been a competitive constraint on the Parties.

- *Customer switching*

133. The Parties provided limited information on the repair and maintenance customers lost by Enza for the first quarter of 2014. This had been collected through the Mercedes Benz Polk system which the CMA understands is a third party data source for dealerships across the UK.

134. This data included information on the actions taken after a customer ceased to use Enza. The data showed that no customers switched to another MB franchised dealership. In contrast, 27 of Enza's customers switched to an independent service centre, two customers decided to self-supply and six customers reported to have sold their vehicles.

135. In addition, the Parties provided a list of customers lost by Road Range over the last two years. Road Range identified five lost customers within that period and none had switched to Enza. However, the CMA notes that one of these customers, [REDACTED], was mentioned in Enza's Board Minutes as being a new customer for Enza, albeit for only some of the vehicles that used to be serviced by Road Range.⁴³ The CMA notes that the Enza's Board Minutes

⁴³ Enza Board Minutes of September 2013.

since January 2012 only contained this example of losing or winning a repair and maintenance customer from Road Range.

- *Conclusion on closeness of competition*

136. In conclusion, based on the distance between the Parties compared to the likely distance that customers are willing to travel (as indicated by the catchment areas), third party responses and a lack of evidence of customers switching between the Parties, the CMA considers that the Parties were not close competitors prior to the Merger, but notes that there was some evidence of competition between them.

Constraints from MB franchised dealerships

137. There are no MB franchised dealerships operating in the Parties' areas of overlap or within 30 miles of either the Liverpool or Warrington sites. The closest MB franchised dealership to the Parties is Ciceley Commercial's (**Ciceley**) based in Bolton, which is around 12 miles from Enza's Warrington site and around 30 miles from Road Range's Liverpool site.

138. [REDACTED]

139. The CMA notes that the Parties were able to identify one customer that Enza lost to [REDACTED] in the past two years.⁴⁴

140. The CMA notes that Enza also lost one customer to [REDACTED]. This was a result of [REDACTED] winning a tender in which the customer agreed to use it for a large volume of repair and maintenance services and funded [REDACTED] to set up an unfranchised service centre next to that customer. This suggests that, for larger customers who are able to support new entry to the market, there was and would remain some constraint from other MB franchised dealerships with the relevant expertise and capacity to set up workshops on demand. The Parties submitted that in the last three years, they did not bid for the same tenders.

141. The CMA notes that, to the extent that some customers are willing to travel further than indicated by the Parties' catchment areas, Ciceley's Bolton site is likely to represent a potential alternative repair and maintenance service supplier.

⁴⁴ Enza Board Minutes in February 2012, April 2013 and March 2014.

Constraints from non-MB franchised repairers

142. The Parties submitted that customers may choose one of a number of options other than a franchised dealership for repair and maintenance services, these include:

- independent service centres;
 - franchised dealerships for another marque; and
 - fleet companies who repair and maintain vehicles for other customers.
- *Independent service centres*

143. The Parties submitted that there were a number of independent service centres in the area that would continue to compete against the Parties post-merger. The customer switching data from the Parties indicated that the Parties lost substantially more customers to independent service centres than other MB franchised dealerships.

144. The CMA spoke to an independent service centre set up in Warrington by Rygor Commercial (Rygor), which is closer to the Enza's Warrington site than Road Range's Liverpool site. It informed the CMA that it has the expertise and ability to offer repair and maintenance services that are similar to an MB franchised dealership. Other MB franchised dealerships told the CMA that they competed strongly with independent service centres to supply repair and maintenance services.

145. Some customers told the CMA that they would be able to use independent service centres, although this was not supported by all customers and some said that for certain repair and maintenance services they would always use their closest MB franchised dealership.

146. On balance, the CMA considers that there is limited evidence of the exact strength of the constraint placed on the Parties by independent service centres. However, the evidence of customer switching and third party responses indicated that a constraint does exist.

- *Franchised dealerships for another marque*

147. The Parties argued that other marques are able to service MB vehicles. To support this, they told the CMA that repair and maintenance services on other

marques' vehicles attribute to [0–10]% of Enza's total repair and maintenance service sales revenue.⁴⁵

148. One customer told the CMA that their best alternative to the Parties for the repair and maintenance of their MB trucks and vans would be a dealership of trucks and vans from an alternative marque.

149. However, based on the above, the CMA has not been able to verify the strength of this constraint on the Parties therefore was not able to conclude on the strength of the competitive constraint imposed by the repair and maintenance suppliers of other marques.

- *Fleet companies who repair and maintain vehicles for other customers*

150. The Parties argued that they face competition from fleet customers who also offer repair and maintenance services. They further submitted that MB authorised some of these customers to carry out a small amount of work covered by the warranty on fleets of vehicles and this has increased their ability to compete.⁴⁶

151. Competitors broadly supported the view that fleet customers did offer competing services, although one MB franchised dealership told the CMA that this is relatively unusual.

152. The majority of customers informed the CMA that they were not aware of such services being available.

- *Self-supply*

153. The Parties submitted that customers who had trucks and vans repaired by the Parties had the option of supplying their own repair and maintenance services on their vehicles.

154. Some customers told the CMA that they performed the majority of non-essential repair and maintenance on their fleets. However, they also told the CMA that they were likely to return to the MB franchised dealership for more complex repairs. Other customers told the CMA that they would not be able to perform any repair and maintenance themselves as they did not have a workshop or employ technicians.

⁴⁵ 'Competitive Analysis' document dated 2 November 2014.

⁴⁶ 'Competitive Analysis' document dated 2 November 2014.

155. The customer switching data evidenced that the Parties lost customers to self-supply, and notably more customers than they lost to each other.
156. On balance, whilst the CMA considers that there are some limits to a customer's ability to self-supply repair and maintenance services, particularly for smaller customers, the fact that a large number of customers do have the ability to self-supply would be likely to pose some constraint on the Parties post-merger.

Other constraints

- *Constraint from other marques*

157. The majority of customers and an MB franchised dealership told the CMA that customers took the costs and quality of repair and maintenance services into account when making a decision on new truck or van purchase. One customer told the CMA that it would switch marques in response to a 5% increase in the repair and maintenance service costs of MB trucks and vans.
158. The CMA understands that the proportion of total vehicle costs attributable to repair and maintenance services varied according to the type of vehicle. One third party, as well as MB, told the CMA that for trucks, repair and maintenance services were likely to account for around 25% of the total cost of ownership. A majority of customers told the CMA that it was important to them to keep their fleets operating with minimal downtime and fuel cost.
159. The CMA notes that the proportion of repair and maintenance service costs for vans was generally lower than for trucks due to their less frequent servicing needs. One customer estimated it to be around 5% of the total operating cost of a van.
160. MB told the CMA that they benchmarked their vehicle sale prices against other marques on the basis of the total cost of ownership (which included the cost of repair and maintenance services). The CMA understands that, in general, the margins earned by MB franchised dealerships on the sales of new trucks and vans were low in comparison to their margins on repair and maintenance services. Therefore, the potential loss of new truck and van customers to other MB franchised dealerships in other areas could be mitigated by retaining that customer's repair and maintenance service custom.
161. On balance, the CMA considers that post-merger the Parties could face some constraint on their repair and maintenance services from other marques. However, the CMA also notes that, some customers replace their vehicles

infrequently. For these customers, the incentive on the Parties to maintain their repair and maintenance service quality is therefore reduced.

162. The CMA therefore considers that the existence of alternative van and truck marques closer to the Parties is likely to present some competitive constraint on the Parties' repair and maintenance service offerings.

- *Constraints from MB Service Packages*

163. The Parties submitted to the CMA that there is limited price competition between MB franchised dealerships as around 30% of vans and trucks are sold with an MB Service Package. In addition, the CMA understands that MB Arctic trucks are sold with a free two year MB Service Package.⁴⁷

164. MB told the CMA that the Service Package is aimed to provide customers with the ability to access repair and maintenance services across the UK. However, MB also informed the CMA that the Service Packages would not cover all potential repair and maintenance services, such as damage to the vehicle. Some customers informed the CMA that the Service Package was attractive because it allowed them to fix some of their repair and maintenance services costs.

165. The CMA also notes that, even within the availability of MB Service Packages, there was some competition between MB franchised dealerships on quality, such as through longer opening hours or free delivery and collection service, in order to ensure MB Service Package customers use their facilities. There was also evidence of competition on hourly labour rates for repairs outside the scope of the MB Service Packages.

Conclusion on competitive assessment for supply of repair and maintenance services

166. The CMA considers that, based on the evidence of the Parties' catchment areas, third party views, and customer switching data, the Parties were not close competitors pre-merger and therefore unlikely to have exerted a strong constraint on each other. In addition, the CMA considers, as set out in paragraph 119, that there are indications that the Parties have low market shares in their AOIs.

⁴⁷ 'Competitive Analysis' document dated 2 November 2014.

167. The CMA considers that a number of constraints remain in the market post-merger, including independent service centres and, in particular, one centre in Warrington. In addition, the CMA considers Ciceley to be a constraint as it is considerably closer to Enza Warrington than Road Range Liverpool. Ciceley is also similar in distance to Road Range Liverpool as Enza Warrington is to Road Range Liverpool.
168. In addition, a number of other existing constraints, such as the constraint posed by other marques of trucks and vans and the availability of fixed price MB Service Packages are likely to provide, collectively, a significant constraint on the Parties post-merger, especially relative to the weak constraint that the Parties were placing on each other. The CMA has not found there to be a difference for new vehicles (ie those under warranty) but notes that potential competition concerns can arise in the supply of Warranty Works and Service Package Works if a reduction of competition leads to a reduction in the quality of repair and maintenance services as a whole.
169. Based on all the evidence discussed above, the CMA considers that the Merger will not give rise to a realistic prospect of a substantial lessening of competition for repair and maintenance services for new and used MB trucks or repair and maintenance services for new and used MB vans.

OEM vehicle parts

170. The Parties overlap in the supply of OEM vehicle parts from a number of sites to a wide geographic area, including through a delivery service that Enza has launched in Yorkshire and Lincolnshire.

Closeness of competition

171. The CMA has not been able to estimate market shares for the Parties in the areas of overlap. However, based on responses from some third parties, there are three other MB franchised dealerships that made OEM vehicle part sales within the Parties' overlapped areas and within 80 miles of the Liverpool site.
172. The CMA received no evidence that the Parties held a particularly high market share compared to other MB franchised dealerships.

Customer switching

173. The Parties provided the CMA with details of OEM vehicle parts customers lost by Enza over the last year. This showed that whilst Enza had lost three customers to Road Range over that period, it had also lost customers to a

number of other competitors, including [X], [X], [X] and [X]. [X] won eight customers. The Parties also submitted that Road Range had lost a significant OEM vehicle parts customer to [X] in the same period.⁴⁸

174. This suggests that, for Enza, [X] represented a closer competitor than Road Range prior to the Merger. The CMA also notes that the OEM vehicle parts switching data showed that the two nearest dealerships to the Parties other than [X], namely [X] and [X], won OEM vehicle parts customers from Enza.
175. The CMA has not been able to verify with all franchise MB dealerships in the UK the extent to which they competed with the Parties to supply OEM vehicle parts, but two MB franchised dealerships told the CMA that they competed with the Parties.
176. In addition, the Parties submitted that customers have the option of buying non-OEM vehicle parts which are typically manufactured by the same manufacturer as the OEM vehicle parts. As discussed above, the CMA has assessed this Merger against the frame of reference of OEM vehicle parts only. However, the CMA considers constraints from outside this frame of reference where appropriate.
177. Several third parties responded that they would buy non-OEM vehicle parts if the price of OEM vehicle parts was increased by 5%. Another customer informed the CMA that in the past where the market for OEM vehicle parts had become less competitive, non-OEM vehicle parts suppliers usually 'rise to the opportunity'.

Customer concern

178. No customers or competitors submitted concerns to the CMA in relation to the supply of OEM vehicle parts. Another customer told the CMA that, in the event that it had a concern, it would be able to deal directly with MB, although the CMA understands from MB that OEM vehicle parts are sold only through MB franchised dealerships.

Conclusion on competitive assessment for OEM vehicle parts

179. On the basis of the evidence set out above, the CMA considers that there are a number of alternative, competing MB franchised dealerships within the Parties' overlapped areas. Given the lack of concern from third parties, and the additional constraint likely to be placed on the Parties by non-OEM parts

⁴⁸ Email from Parties on 7 November 2014.

suppliers, the CMA considers that the Merger will not give rise to a realistic prospect of a substantial lessening of competition in the supply of OEM vehicle parts.

Barriers to entry

180. In assessing the prospect of a substantial lessening of competition resulting from a merger, the CMA considers the potential for competition in the market to be affected in the longer term as new firms enter, or the merged firm's competitors take actions to enhance their ability to compete against it.
181. The CMA notes that Rygor is a new provider of repair and maintenance services in the Warrington area, although not as an MB franchised dealership but as an independent service centre. It set up a new workshop in the area following the acquisition of a new customer through a tender process.⁴⁹ Other franchised dealerships indicated to the CMA that they would be unlikely to invest in setting up operations in a new area without a guaranteed large volume of work.
182. The CMA has received some information from an MB franchised dealership that an estimated initial capital investment of £250,000 is required to cover the signage, corporate identity, specialist tools, IT systems and staff training necessary in setting up a new premise for the provision of MB franchised repair and maintenance services.
183. Further, the majority of repair and maintenance dealerships (either independent or MB franchised) told the CMA that it would be relatively easy to expand their repair and maintenance capacity at their sites, since they are not currently at full capacity (none are operated for 24 hours a day). The CMA understands that barriers to expansion would be much higher once a repair and maintenance workshop is operating 24 hours a day.
184. In this case, since no competition concerns arise, it has not been necessary for the CMA to conclude on the scale of barriers to entry and expansion and the likelihood of entry in this market.

⁴⁹ That customer was Brakes.

Decision

185. This Merger will therefore **not be referred** under section 22(1) of the Act.

Jonathan Parker
Director of Mergers
Competition and Markets Authority
12 December 2014

ⁱ The CMA notes that the Parties submit that the AOs are historical and that they no longer use this term. However, the AOs are included in this decision because of its legacy use and are referred to by other industry players.

ⁱⁱ The Parties submitted that their activities covered only a substantial part of the Greater Manchester and Liverpool conurbations.

ⁱⁱⁱ The Parties submitted that their share of supply is 34%.

^{iv} The CMA notes that the Parties submitted that it was also possible that neither Party would continue as an MB franchised dealership absent the Merger.