

Completed acquisition by Euro Car Parts Ltd of assets of the Andrew Page business

Summary of provisional findings report

Notified: 14 September 2017

Background

1. On 22 May 2017, the Competition and Markets Authority (CMA), in accordance with section 22 of the Enterprise Act 2002 (the Act), referred the completed acquisition by Euro Car Parts Limited (ECP) of certain assets of Andrew Page Limited, Solid Auto (U.K.) Limited and Colton Parts Company Limited (collectively AP) for further investigation and report by a group of CMA panel members (the Inquiry Group). Throughout this document, where appropriate, we refer to ECP and AP collectively as the Parties.
2. The CMA must decide:
 - (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 United Kingdom for goods or services.
3. This document, together with its appendices, sets out our provisional findings. The statutory deadline for preparing and publishing our report on this investigation is 5 November 2017.

The Parties and the Merger

4. ECP is a wholly owned subsidiary of LKQ Euro Limited, whose ultimate parent is LKQ Corporation, a public company incorporated in Delaware. ECP's UK annual turnover for its financial year (FY) ended 31 December 2016 was approximately £988 million.
5. AP was founded in 1917 and was run as a family business until 2010 when Phoenix Equity Partners invested in the company, followed by Endless LLP in 2014. AP went into administration in October 2016. For the financial year ended 30 September 2016, AP generated total revenue of £172 million.

6. On 4 October 2016, following an accelerated sale process, ECP acquired certain assets of AP out of administration. These assets included licences to occupy and an option to purchase the leaseholds of 101 AP local depots, AP's national distribution centre in Markham Vale and its Leeds head office. ECP also acquired AP's stock, its brands and certain customer and supply contracts. Most of AP's employees were also transferred to ECP.
7. ECP and AP overlap in the supply of car parts both to the independent motor trade (IMT) and to retail customers. They also supply garage equipment to the IMT and market car parts under a number of private label brands.
8. In our [statement of issues](#), we indicated that we were not minded to investigate the supply of car parts to retail consumers or the supply of private label car parts, as the overlap between the Parties in relation to these activities is minimal. We also indicated that we were not minded to investigate the effects of the Merger in respect of garage equipment because the evidence available suggested that AP's activities are limited in relation to such activity and that there are a large number of alternative suppliers to the Parties, including manufacturers of garage equipment. We invited comments on our intention not to investigate these areas of overlap between the Parties but did not receive any submissions in response. We did not therefore investigate these areas further.

Industry Background

9. The Parties' principal business is the distribution of independent aftermarket (IAM) car parts and components to IMT customers. IAM car parts are replacement car parts that are not specific to one individual car marque and are not approved by the car manufacturer and therefore not branded as original equipment manufacturer (OEM) car parts. OEM car parts are primarily supplied by the car manufacturers and their dealer networks which will generally only supply OEM car parts for their own makes of car and not IAM car parts or other car manufacturers' parts.
10. IAM and OEM car parts are used when a vehicle owner takes his or her vehicle to be repaired or serviced at an independent or franchised garage, work/repair shop, car dealer or fast-fit centre. Competition in the IMT is primarily on a local basis and the IMT is highly fragmented with a large number of firms. Some of these are active in one or a small number of local areas although there are a number of larger IMT customers, such as Halfords Autocentres, Kwik-Fit, the emergency services and the RAC which operate on a multi-regional or national basis.
11. IAM car part suppliers, such as ECP and AP, aim to supply as wide a range of IAM car parts for as many car marques as possible and are known as 'general motor factors'. They usually stock several different specifications of a

particular car part at different price points. In addition to suppliers of OEM car parts and general motor factors such as the Parties, there are a number of specialist IAM car part suppliers. These suppliers generally specialise in a particular type of car part such as exhausts, brakes or clutches rather than supplying the full range of car parts.

12. IMT customers choose suppliers taking account of several parameters, particularly price, product availability, speed of delivery and quality of service. Product delivery time is particularly important, with customers usually requiring parts to be delivered within approximately an hour of an order being placed.
13. In addition to the Parties, other larger general motor factors include Parts Alliance (PA), Alliance Automotive (AAG) and Motor Parts Direct (MPD). The market is, however, highly fragmented and there are a significant number of independent local suppliers of IAM car parts. Some of these smaller general motor factors form buying groups. These buying or trading groups enable smaller general motor factors to negotiate better prices with suppliers and to better serve a broader range of customers. PA, which also has a network of owned depots, is one of the largest of these buying groups. It uses its associate members to supply larger IMT customers in areas where it does not have its own depots as well as to negotiate greater volume discounts for its members. Neither ECP nor AP is a member of a buying/trading group.

Relevant Merger situation

14. We provisionally found that the Merger has resulted in a 'relevant merger situation' within the meaning of the Act.

Market Definition

15. We provisionally found that the relevant product market is the supply of IAM car parts by general motor factors for cars and light vehicles to the IMT. The Parties submitted that the market is wider including OEM and specialist parts suppliers. The evidence available to us indicates, however, that OEM and specialist parts suppliers are alternative suppliers to general motor factors in a limited range of circumstances and therefore exert only a limited competitive constraint on general motor factors such as the Parties and We have therefore provisionally found that they are not part of the relevant market.
16. As described above, IMT customers can be segmented broadly into locally based IMT customers (primarily independent garages and workshops operating from one or a small number of closely located sites) and larger (in sales) nationally or multi-regionally based customers (Key Accounts). We found that the Merger was likely to have different impacts on local IMT

customers and Key Accounts. Unlike local IMT customers, Key Accounts generally require a primary supplier supplying the majority of their requirements across a broad geographic area and therefore have different requirements when selecting a supplier than a local IMT customer operating from a single site or a small number of closely located sites.

17. For local IMT customers, we provisionally conclude that the relevant markets are local to each depot. Our analysis of each of the Parties' depots' catchment areas shows that, while there is some variation between depots, both the ECP and AP depots serve customers in a relatively narrow geographic area. For Key Accounts, we provisionally found that the market is national because Key Accounts normally require a small number of suppliers with broad geographic coverage to supply most of their sites.

Counterfactual

18. Before analysing the competitive effects of the Merger, we considered what would have happened to AP and its assets in the absence of the Merger (the counterfactual). Identifying the counterfactual provides a benchmark against which to assess the competitive effects of the Merger.
19. We provisionally found that, absent the Merger, AP would have been likely to exit the market as a result of financial failure.
20. We then considered whether there would have been an alternative purchaser to ECP for AP or any its assets. We provisionally found that, absent the Merger, it is more likely than not that PA and MPD would have acquired up to the 52 AP depots for which they bid (and intended to continue to operate) in the AP sale process leading to the Merger, and therefore the acquisition of these AP depots should be the relevant counterfactual for our competitive assessment.
21. There were no alternative bids for 49 depots, the national distribution centre or head office. Absent a sale, these assets would have been likely to have been closed by AP's administrators. We therefore provisionally concluded that the appropriate counterfactual for our competitive assessment in relation to these 49 depots is exit of AP from the relevant markets and therefore the loss of a competitor.
22. With respect to our competitive assessment for Key Accounts, we provisionally concluded that the appropriate counterfactual is the exit of AP and the purchase, by a combination of PA and MPD, of up to the 52 depots for which they bid in the accelerated sale process and would have continued to operate. The remaining depots, distribution centre and head office would have closed.

Competitive assessment of the effects of the Merger on local IMT customers

23. We first identified those local areas in which an AP depot does not overlap with an ECP depot to any material extent and therefore where, in our view, the Merger does not have the potential to create competition concerns. We identified three such local areas (Scarborough, Gatwick and Isle of Wight). In the absence of any actual overlap between the ECP and AP depots in these areas, we provisionally concluded that, in the three relevant local markets where these three depots are located, the Merger may not be expected to give rise to a SLC.
24. We therefore focused our competitive assessment on the 98 AP depots which overlap with one or more ECP depots and where the Parties may compete to a material extent. We undertook a different assessment for the purposes of analysing the effects of the Merger depending on whether the appropriate counterfactual for the area concerned is exit of the AP depot from the relevant local market or acquisition by an alternative purchaser.

Assessment where the counterfactual is exit of the AP depot

25. For the purposes of assessing whether the Merger could give rise to a SLC relative to a counterfactual involving the closure of the AP depot, we have considered whether, and in what circumstances, a change in the distribution of sales or in the number of depots operated by ECP in an area could lead to a SLC, given that the total number of competitors in the area is the same following the Merger and in the counterfactual.
26. For the purposes of assessing whether a merger could lead to a SLC relative to a counterfactual of exit of the target firm/assets, we take into account the differences between the merger and the counterfactual. In respect of the Merger these differences included:
 - (a) the distribution of sales: as a result of the Merger, ECP will at least initially acquire all the sales of the AP depot whereas the distribution of the AP depot's sales may have been different under the exit counterfactual;
 - (b) The number and location of depots operated by ECP: as a result of the Merger ECP will at least initially operate an AP depot in addition to its existing depot which it would not otherwise have operated.
27. We identified several market characteristics which lead us to consider that, where the counterfactual is the exit of the AP depot, the Merger will not affect ECP's or third party suppliers' ability to compete in a local area. In particular, local customers usually shop around before placing orders and tend to have trading accounts with several suppliers. Customers also typically place orders when the parts are required and expect delivery to their sites at short notice.

These characteristics suggest that the level of competition will depend primarily on the number of available suppliers and their respective ability to deliver car parts to customers in the relevant local area.

28. Therefore, we consider that the competitive constraints on ECP would be substantially the same following the Merger and in the counterfactual. We have not received submissions, nor seen evidence, suggesting that the ability of existing suppliers to compete in a local area would be materially affected by the acquisition by ECP or the exit of the AP depot. The redistribution of a portion of AP's sales to competing suppliers under the counterfactual (rather than the acquisition of all AP's sales, at least initially, to ECP following the Merger) would not materially affect other suppliers' operational costs nor would it materially affect their ability to deliver car parts from their current location.
29. Similarly, we have not received submissions, nor seen evidence, suggesting that ECP's operational costs would materially vary as a result of a different distribution of AP's sales or an increase in the number of depots it operates in an area.
30. On the evidence available, we therefore considered it unlikely that the exit of an AP depot from the relevant local market would lead to a more competitive outcome than if the AP depot continued to operate under ECP's ownership. We therefore provisionally concluded that the acquisition of the 49 AP depots for which the counterfactual was exit of the AP depot may not be expected to give rise to a SLC.

Assessment where the counterfactual is an alternative purchaser

31. In cases where the counterfactual is acquisition of the AP depot by an alternative purchaser, we sought to identify the local areas where the Merger would cause a SLC as a result of a reduction in the number of suppliers in the local area. Given the number of local areas to consider, our overall approach was to identify mechanistic rules which could filter out unproblematic areas and then to carry out more detailed local area assessments in the remaining areas.
32. This involved first identifying, using the available evidence, a list of suppliers across the UK in relation to which we had sufficient evidence to conclude that the supplier imposes a significant constraint on at least one ECP or AP depot (Effective Competitors). We then, for each ECP and AP depot, identified from the list of Effective Competitors those suppliers which are present in the relevant local area and may therefore compete with the Parties in that area (Actual Competitors).

Filtering to identify depots of potential concern

33. Having identified the Actual Competitors in an area, we then applied a filter to identify depots in areas that were unlikely to raise competition concerns. The filter used a combination of three criteria to identify depots of potential concern, namely a measure of the extent of overlap between the Parties' depots, a fascia count and a store count. We adopted a conservative approach to this initial filtering process in relation to the overlapping ECP and AP depots so that we were confident that it would identify those depots potentially of concern. This process identified 35 AP and ECP depots (15 AP depots and 20 ECP depots) as unlikely to be a concern out of an initial 129 AP and overlapping ECP depots.
34. We reviewed a number of areas where the filtering exercise did not identify that either the AP or ECP depot should be subject to a detailed analysis. We were satisfied on the basis of these reviews that those depots identified as not a concern by the filters did not require further review. In areas where one of the Party's depots was identified as requiring further analysis but the other Party's depot in the same area was not, we conducted a further analysis of the area where both of the depots are located. This identified five additional AP depots for further consideration.
35. As a result of this filtering exercise, we provisionally concluded that the acquisition by ECP of 10 AP depots may not be expected to give rise to a SLC.

Local assessments of depots identified by the filter

36. In order to conduct our more detailed local assessments of the remaining 99 AP and ECP depots, we grouped these depots into 60 distinct local areas. We considered all of the evidence available to us in each local area, allowing us to assess the strength of competition from each supplier and the closeness of competition between ECP and AP.
37. The information we used included the number, identity and location of any overlapping ECP and AP depots and of Actual Competitors to each ECP and AP depot in the area, together with the location of the customers of the Parties' depot. We also considered a range of additional evidence to inform our view of the strength of suppliers in the local area. This included evidence relating to the prevalence of such suppliers in ECP's price matching data, responses to our survey of local IMT customers in the relevant area and evidence of other suppliers which may provide a constraint on the Parties, such as suppliers which our methodology did not identify as Actual Competitors but where we have other evidence which suggests that they do compete with the Parties. We also considered the geographical closeness of Parties' depots and competing suppliers for the Parties' customers, and

submissions from the Parties on the competitive conditions in these local areas.

38. Finally, we also considered the identity of the alternative purchaser(s) under the appropriate counterfactual and whether it/they is/are present in the overlap areas.
39. We provisionally found 50 areas where we considered that the acquisition by the relevant alternative purchaser would not be substantially more competitive than the Merger and therefore the Merger does not give rise to a SLC in the relevant local area.
40. We identified 10 areas where we provisionally found, based on our assessment of the closeness and the relative strength of the Parties' and third parties' depots in the area, that the loss of AP as a competitor, compared with the counterfactual where the AP depot is operated by an alternative purchaser, would substantially lessen competition.

Competitive effects

41. We assessed the likely effects of the Merger against the relevant counterfactual in each of the 10 local areas where we provisionally found that the Merger may be expected to be substantially less competitive than acquisition by the alternative purchaser. In view of the limited competitive constraints on ECP in those local areas following the Merger relative to the counterfactual, we provisionally found that ECP will have an incentive to increase prices and/or reduce the quality of service to local IMT customers in those local areas.
42. We have not identified any countervailing factors that are likely to offset the effects of the Merger in these 10 local areas.
43. We therefore provisionally concluded that the Merger may be expected to give rise to a SLC in the following ten local areas: Blackpool; Brighton; Gloucester; Liphook; Scunthorpe; Sunderland; Swindon; Wakefield; Worthing; and York.

Competitive assessment of the effects of the Merger on Key Accounts

44. For a SLC to be found in relation to Key Accounts, there would need to be evidence that competition for Key Accounts would have been significantly stronger in the counterfactual, in which at least 49 depots would have closed and where PA and MPD would between them have acquired up to the 52 depots for which one or both of them had bid.
45. We considered that:

- (a) the closure of 49 AP depots, and redistribution of their sales among existing suppliers, would not have been likely to have enabled these (or any other) suppliers to compete more strongly for Key Accounts;
 - (b) PA's acquisition of any or all the 39 depots it bid for would not have been likely to result in a material increase in its ability to compete for Key Accounts. Before the Merger, PA already represented a competitive constraint on ECP. This constraint might have increased to some extent had PA acquired up to the 39 AP depots for which it bid, through cost and other efficiencies arising from replacing supply partners with PA-owned depots. However, we have not received evidence which suggests that these efficiencies would have been sufficiently large or sufficiently likely to be passed through to customers, such that, in the counterfactual, PA would have exerted a significantly stronger constraint on ECP than it did before the Merger.
 - (c) MPD's acquisition of any or all the 21 depots for which it bid and would continue to operate would not have been likely to result in a material increase in competition for Key Accounts. MPD's geographic coverage would not have been sufficiently increased to allow it to pose more than the marginal competitive constraint it currently exerts and would not have significantly increased MPD's buyer power.
46. We therefore provisionally concluded that the Merger may not be expected to result in a SLC in the supply of IAM car parts by general motor factors to Key Accounts in the UK.

Provisional conclusion

47. As a result of our assessment, we provisionally concluded that the Merger:
- (a) has created a relevant merger situation; and
 - (b) may be expected to result in a SLC in the supply of IAM car parts by general motor factors to local IMT customers in the ten local areas set out below and that this may be expected to lead to adverse effects for local IMT customers in terms of an increase in prices and/or a reduction in the quality of service in those ten local areas.
 - (i) Blackpool
 - (ii) Brighton
 - (iii) Gloucester
 - (iv) Liphook

- (v) Scunthorpe
- (vi) Sunderland
- (vii) Swindon
- (viii) Wakefield
- (ix) Worthing
- (x) York