

Evaluating the impact of the car warranties market study

**Prepared for the Office of Fair
Trading by Europe Economics**

June 2006

OFT852

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1 EXECUTIVE SUMMARY

- 1.1 In 2003 the Office of Fair Trading (OFT) carried out a market study of new car warranties. This identified restrictions in some warranties which required owners to have their cars serviced at the garages of franchised dealers approved by the manufacturer in order for the warranty to remain valid. There was widespread confusion amongst consumers about the terms of warranties. Servicing at franchised outlets was significantly more expensive than at independent garages.
- 1.2 The study concluded that the servicing restriction in the warranties operated to the detriment of consumers. Following publication of the report the OFT called for an end to the warranty restriction, entered into discussion with trade associations to develop codes of practice, and carried out an information campaign to improve consumers' awareness of their opportunity to choose where to have their cars serviced. This report assesses the impact of the 2003 study and subsequent actions. It also draws general lessons for the conduct and evaluation of market studies.

Key developments

- 1.3 Manufacturers have now dropped the specific restrictions which tied the warranty to servicing at a franchised garage. Information on this is available in the SMMT code of practice approved by the OFT in 2004. However the freedom to have the car serviced at an independent garage is generally not highlighted in manufacturers' guidance. Servicing at a franchised dealer or authorised garage is still encouraged by some manufacturers.
- 1.4 Franchised dealers continue to be more expensive for servicing than independent garages.

- 1.5 The market share of independent garages has risen since 2003. However, our survey results show that franchised dealers still hold 86 per cent of the new car servicing market, in terms of number of private customers.
- 1.6 The EC Cars Block Exemption Regulation (BER) came into force in October 2003. This enables independent garages to compete on a more equal footing with franchised dealers including the opportunity to become authorised to carry out servicing by manufacturers. So far only a small number of independent garages have become authorised under the BER. This may reflect a reluctance to invest in equipment and training and continuing uncertainty about the attitudes both of manufacturers and consumers towards authorised garages. It is still early to be able to assess the full impact of the BER.

Impact of the OFT actions

- 1.7 The market study and the follow on actions by the OFT had a positive impact on the market. Warranty restrictions related to servicing have been removed and there has been some improvement in consumer awareness and understanding of their servicing options. Consumers have benefited from these developments.
- 1.8 We have made our own estimates of the value of these consumer benefits. This is a difficult area of economic analysis requiring a number of critical assumptions. We consider our assumptions to be realistic but recognise that they are open to challenge.
- 1.9 Based on the increased use of independent garages, we estimate the benefits to private customers to be in the region of £16 million per annum. Fleet operators and business users are likely to have been the bigger beneficiaries with estimated gains from the removal of the warranty restriction in the region of £50 to £75 million per annum.

- 1.10 It is not possible to make a precise judgement on the balance between changes that would have taken place as a result of the BER and other market developments and the contribution made by the OFT. We have taken the view that the requirements of the BER and other developments in the market would, in due course, have brought about the dropping of the warranty restrictions but that the OFT's initiatives are likely to have accelerated this process.
- 1.11 We consider it reasonable to assume a two year acceleration of change and on this basis we estimate the total consumer benefits for private customers attributable to the OFT's action to be in the region of £30 million, about £2 million of this may be attributable to the OFT awareness campaign. For fleet and business customers estimated total benefits are in the range £90 to £140 million.
- 1.12 In comparison, the cost to the OFT of carrying out the market study, follow up discussions with manufacturers and the information campaign is estimated to be in the region of £300,000.
- 1.13 However consumer awareness of their servicing options remains low. Alongside the benefits identified we estimate that there is a continuing detriment of between £40 million and £90 million per annum from consumers not taking full advantage of their opportunity to choose independent servicing outlets.

Improving consumer awareness

- 1.14 The car servicing market is influenced by continuing consumer perceptions that the validity of their warranty will be prejudiced if servicing is carried out other than at franchised dealers. Such perceptions remain widespread amongst consumers despite the OFT's initiatives. Although the warranty restrictions have been removed, some manufacturers continue to encourage consumers to have servicing carried out at franchised or authorised outlets. In this way, the extent to which the servicing market has been opened up to non-franchised outlets has been constrained.

- 1.15 The restriction on servicing under warranty had been in place for a long time and past history continues to colour consumers' perceptions. 70 per cent of consumers who still thought that their warranty restricted where they could have their car serviced said that they would consider going to an independent garage if there was no restriction.
- 1.16 The OFT campaign influenced the understanding of just over half the people who saw it. However the campaign only reached six per cent of new car buyers. This is probably because it was a one-off campaign using only leaflets and a video release.
- 1.17 In addition, although the SMMT code now includes the correct description on choice of servicing outlet, there is no obligation on dealers to inform consumers explicitly of the change in rules.
- 1.18 Amongst the consumers who had seen or heard the OFT information campaign, about half did not change their views or decisions. Possible reasons for this are that the information was not given to consumers at the point of purchase of a new car and that the language in some manufacturers' guidelines might discourage the use of non-franchised outlets.
- 1.19 Consumer choice is also influenced by a number of other factors. These include the difficulty for consumers in determining whether servicing has been carried out correctly, the potential cost from incorrect servicing, including possible reduction in resale value, and media coverage highlighting poor quality.
- 1.20 These factors reduce confidence and make consumers risk-averse in their choice of servicing outlet. In the absence of better information it may be entirely rational for consumers to choose to remain with franchised outlets.
- 1.21 There is scope for further action to improve consumer awareness that the warranty restriction has been dropped and to increase confidence in the quality of servicing available at franchised and non-franchised

outlets. This should result in a further reduction in the continuing consumer detriment which we have identified.

General lessons for future market studies

- 1.22 In future market studies we suggest that a range of key issues including existing market developments and their likely impact should be identified early in each study. This would provide a basis for assessing the level of resource to devote to each issue. Studies should take a wide definition of the relevant group of consumers.
- 1.23 In considering the scope and resources for future information campaigns particular attention should be given both to the length of time required to achieve a significant impact and to the targeting of the campaign.
- 1.24 The valuation of consumer detriment is important both as a guide to the seriousness of the market problems identified and in deciding on the appropriate level of resources to put into remedies. The study set out an upper limit but in our view it would have been more realistic to adopt a lower figure. We suggest that the OFT should draw on the wider work which is in hand on the measurement of consumer detriment in developing best practice for future market studies. This will provide a firmer basis for assessing the resources to be devoted to follow up action.

Lessons for evaluation

- 1.25 This study was commissioned less than three years after the 2003 study and an even shorter time after the follow-up action. That can be a short period for significant changes to develop and for information about changes to become available. In this case we have been able to draw conclusions but we suggest that the likely time period over which actions following a market study will have an impact on the market should always be taken into account in deciding when to initiate an evaluation.

1.26 A particular issue in this study was difficulty in obtaining responses from stakeholders. If the intention to do a follow up evaluation is notified to stakeholders during the original market study and if details are retained by the OFT for future contacts, this could lead to better material being available at the evaluation stage.

2 INTRODUCTION

2.1 In January 2006, Europe Economics, an independent economics consultancy, was commissioned by the OFT to evaluate the impact of the OFT's 2003 market study into car warranties (the 2003 study)¹ and the subsequent actions taken by OFT on the market for automotive servicing and repair.

2.2 The aim of the evaluation was to identify and, where possible, quantify the impact of the OFT's work; to explain why there was, or was not, any effect and to address particular questions arising from the findings of the original study. The particular questions identified by the OFT were:

- Have the terms of warranties identified in the 2003 report changed?
- Are the changes sufficient to allow consumers to use independent garages?
- Has the SMMT code of conduct influenced dealer behaviour? In what way?
- How effective were the OFT information campaigns? How could they be improved?
- Has consumers' understanding of warranties improved? Has this changed their behaviour?
- Is there greater competition between franchised and independent garages?
- Have prices changed, or might they be expected to change, for consumers? What are the reasons for this?

¹ Office of Fair Trading (2003) *New car warranties* (OFT683)
www.oft.gov.uk/Business/Market+studies/new+car+warranties.htm

- What dynamic changes have occurred in the market?
- What has been the net benefit to consumers of the market study and subsequent actions?
- Are there any wider learning points for evaluation and market studies, and for an assessment of impact?

2.3 Although the title of the 2003 study was 'Car Warranties', the principal focus of concern is on the regular servicing of cars during their warranty period. The warranty generally provides free repair of faults but regular servicing, which the customer pays for, according to the manufacturer's specification is required to maintain the warranty. At issue is the extent to which customers are, or believe they are, constrained in the choice of where to have such servicing carried out.

2.4 In carrying out this evaluation we have drawn on three sources of information:

- desktop research
- interviews with stakeholders, and
- a consumer survey (conducted for us by MORI).

2.5 We sought interviews with organisations which had an interest in or might be affected by car warranty restrictions. We conducted interviews (either face-to-face or via telephone) with nine stakeholders. Among these were two consumer organisations, two fleet operator associations, and five organisations within the motor industry. We would like to thank those who participated. Details of these organisations are provided in Annex A.

2.6 The consumer survey questionnaire was designed by Europe Economics in conjunction with MORI. MORI then conducted 704 telephone interviews with new car owners, asking in detail about their car servicing

preferences and decisions. Details of the survey, its methodology and main findings are included in Annexe B.

2.7 The structure of the report is as follows:

- Chapter 3 introduces the background and the OFT actions to be evaluated
- Chapter 4 and 5 present the findings of our study, with Chapter 4 focussing on the key features of the market and Chapter 5 focussing on consumer awareness and servicing choices with particular reference to the survey results
- Chapter 6 assesses the OFT actions in the light of our findings and includes our estimates of benefits to consumers and continuing areas of consumer detriment, and
- Chapter 7 sets out general lessons for market studies and evaluation.

2.8 In Annexe C we explain in detail our calculation of consumer detriment and the benefits to consumers since the 2003 study.

2.9 In this report we have followed the same definitions as were used by the OFT. Annexe D reproduces the glossary of main terms from the 2003 study.

3 BACKGROUND

The OFT's 2003 market study

- 3.1 The 2003 study was instigated after a complaint from the Independent Garages section of the Retail Motor Industry Federation. The complaint claimed that new car warranty restrictions were anti-competitive. In addition, a publication by the DTI found that the price of servicing and repairs at garages franchised by car manufacturers was higher than the price at independent garages.² Differences in the quality of repairs did not appear sufficient to justify this differential, and the OFT believed that it could be caused by anti-competitive clauses in warranty contracts. Therefore the OFT conducted the 2003 study under the provisions of section 5 of the Enterprise Act 2002.
- 3.2 As part of the 2003 study, a consumer survey of 750 new car buyers and a mystery shopper survey of 150 garages (franchised dealers and independent garages) were conducted. The consumer survey provided information on the market share of franchised dealers in servicing new cars (up to three years old), consumer awareness of the terms of car warranties, and the factors considered by consumers when choosing where to have their cars serviced. The mystery shopper survey was aimed at checking the findings of the earlier DTI research that franchised dealer servicing was more expensive than independent garage servicing.

Basic findings

- 3.3 The 2003 study found that, at that time, all new cars sold in the UK included a basic warranty (called the 'manufacturer's warranty') and sometimes an extended warranty (called the 'dealer based warranty') which in combination normally lasted for three years. Around half of all

² Department of Trade and Industry (2002), Car servicing and repairs, mystery shopping research.

the new cars sold in 2002 included some restrictions requiring franchised dealer servicing if their warranties were to remain valid.

- 3.4 After-sales costs were a significant expense, representing around 40 per cent of the whole life cost of the car. Total expenditure on car servicing and repair within the UK was found to be around £10 billion a year. About £1.4 billion was spent on servicing cars up to three years old, which was regarded to be the subset of cars of particular interest since warranties would normally be offered for up to three years for new cars. Franchised dealers were found to account for around 90 per cent of servicing in this subset. The vast majority of older cars are served by independent dealers, which accounted for 47 per cent of the total value of the car servicing and repairs market in the UK.
- 3.5 Drawing on findings of the earlier DTI research, the 2003 study suggested that there was little difference in servicing quality between franchised dealers and independent garages despite the significant price differential: the median cost of franchised dealer servicing was £199 compared to £116 for independent garages. This represented a 40 per cent price differential.³
- 3.6 Based on the findings of the consumer survey and other research on the market share of franchised dealers in servicing cars of different ages, the 2003 study considered the terms and conditions of new car warranties to be highly influential in consumers' decisions on where to have their cars serviced.

Issues of concern

- 3.7 The 2003 study acknowledged that there might be efficiencies associated with manufacturers providing warranties with new cars. However, it concluded that the restrictions on servicing location could not be justified on grounds of efficiency.

³ $(£199 - £116) / £199 = 41.7\%$

3.8 Moreover, the impact of warranty servicing restrictions was exacerbated by consumers' widespread misunderstanding of the details of the warranty conditions, and by their incomplete knowledge of the risk and consequences of a major component failure. Such misunderstanding and uncertainty, combined with the servicing restriction, potentially confer additional market power on franchised dealers that results in consumers paying higher prices.

3.9 The 2003 study found no evidence supporting the idea that non-franchised garages were at a higher risk of not being able to reach an efficient scale of operation or to realise similar efficiencies. It was expected that, following the changes to the EC Car Block Exemption Regulation,⁴ independent garages could compete on more equal terms with the existing franchised dealers.

Conclusion

3.10 The 2003 study concluded that:

- the conditions that are placed on new car warranties which restrict servicing to franchised dealers appear unnecessarily onerous and effectively restrict choice, and
- there is widespread consumer misunderstanding about the terms and conditions attached to their warranty.

3.11 The OFT estimated that the potential consumer detriment arising from the price differential between franchised dealers and independent garages was up to £500 million per year.⁵

⁴ Commission regulation (EC) No 1400/2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle sector.

⁵ Office of Fair Trading (2003), *New car warranties* (OFT683).

Actions taken by the OFT following the 2003 report

- 3.12 Following the 2003 study, the OFT took a number of actions to deal with the problems identified.
- 3.13 First, it called on the trade to drop conditions attached to warranties that require a car to be serviced at a garage in its manufacturer's network. In May 2004, the OFT announced that all major makes of new car in the UK would, in future, be sold without servicing ties as part of their warranties.⁶ The lifting of the ties had avoided the possibility of formal action by the OFT under EC competition law.
- 3.14 Second, the OFT conducted a publicity campaign in 2004 to raise consumer awareness of the terms of car warranties. In the information campaign the OFT:
- designed and printed an information leaflet, 600,000 of which were distributed through inserts in car magazines, and 18,000 of which were distributed via entities such as Trading Standards, and
 - issued a video news release.
- 3.15 Third, the OFT liaised with trade associations to include appropriate provisions in their consumer codes of practise. One of the most significant developments was that the SMMT became the first industry body to secure the OFT approval for its consumer code of practice under the OFT's Consumer Codes Approval Scheme (CCAS) in September 2004.⁷

⁶ Office of Fair Trading (2004), Servicing ties removed from new car warranties, press release 85/04 on 14 May 2004.

⁷ Office of Fair Trading (2004), Driving up standards in the motor industry, press release 153/04 on 27 September 2004.

3.16 In total, it was estimated that 99.7 per cent of the UK new car market would be subject to the provisions of the code, which promised the following key benefits related to car warranties:

- The manufacturer's new car warranty document, to be written clearly in plain and intelligible English, would be supplied to consumers on delivery of their new car. This document would also include claim procedures and contact information.
- There would be fewer restrictions on:
 - where repair work covered by the warranty might be undertaken
 - transfer of warranty with transfer of ownership, and
 - the provision of loan cars for cars being repaired.
- On the issue of car warranties and servicing requirements, consumers would continue to benefit from the manufacturer's new car warranty whilst the car is serviced to the manufacturer's recommendations, even if this service is carried out by an independent service/repair outlet.

3.17 However, the code cautioned consumers:

- to keep records of work completed, including receipts for servicing/repair if their car had been serviced by an independent service/repair outlet, and
- to ensure that the service/repair was completed according to the manufacturer's requirements if they had taken their car to an independent service/repair outlet. In general terms warranty repair work would only be covered at no cost to the consumer as long as it is undertaken by a franchised/authorised outlet.

3.18 In addition, the code promised other benefits including:

- an obligation on manufacturers to include in their warranties information on where consumers may seek redress
- an independent redress and arbitration scheme and access to the SMMT conciliation scheme, which assists consumers in the event of a dispute
- a consumer guide clearly advising consumers of their rights and what SMMT members will deliver under the code
- staff training seminars to ensure that members understand their duties under the code and follow it in practice, and
- regular customer satisfaction surveys so that problem areas could be addressed should the code fail to meet its promise, a new 'penalty points' system linked to compliance, and a range of sanctions, including monetary fines, imposed on members for non-compliance with the code.

Block Exemption Regulation

3.19 The EC Cars Block Exemption Regulation (BER) is European Commission Regulation No 1400/2002 (formerly Regulation No 1475/95), which is specific to the motor vehicle sector. It covers agreements concerning the distribution of new motor vehicles and spare parts, and distribution agreements governing the provision of repair and maintenance services by authorised repairers. It also deals with the issue of access to technical information for independent operators which are directly or indirectly involved in the repair or maintenance of motor vehicles, such as independent repairers, and with access to spare parts.

3.20 Car manufacturers in the UK sell most of their cars through a network of franchised dealers that typically also provide servicing and repairs. The BER, which came into force in October 2003, introduced a number of substantial changes with the following aims:

- to allow manufacturers to set selection criteria for authorised repairers, so long as these do not prevent the exercise of any of the rights enshrined in the BER
- to ensure that if a supplier of new motor vehicles sets qualitative criteria for the authorised repairers belonging to its network, all operators who fulfil those criteria can join the network
- to improve authorised repairers' access to spare parts of appropriate standard which compete with parts sold by the vehicle manufacturer, and
- to preserve and reinforce the competitive position of independent repairers by reinforcing their ability to gain access to spare parts and technical information in line with technical advances, especially in the field of electronic devices and diagnostic equipment. The access right is also extended to training and to all types of tools since access to all four of these elements is necessary if an operator is to be able to provide the necessary standard of after sales service.⁸

3.21 It was generally expected that the BER would facilitate competition in the car servicing and repair market by giving consumers more choice and better value for money.

⁸ European Commission Regulation (EC) No 1400/2002 Explanatory Brochure.

4 KEY FEATURES OF THE MARKET

4.1 Chapters 4 and 5 report our findings. This chapter focuses on the key features of the market, namely the development of the motor industry in the UK, the impact of the BER, trends in the car servicing and repair market, and changes in car warranties. In Chapter 5 we analyse consumer awareness and servicing practises.

The motor industry in the UK

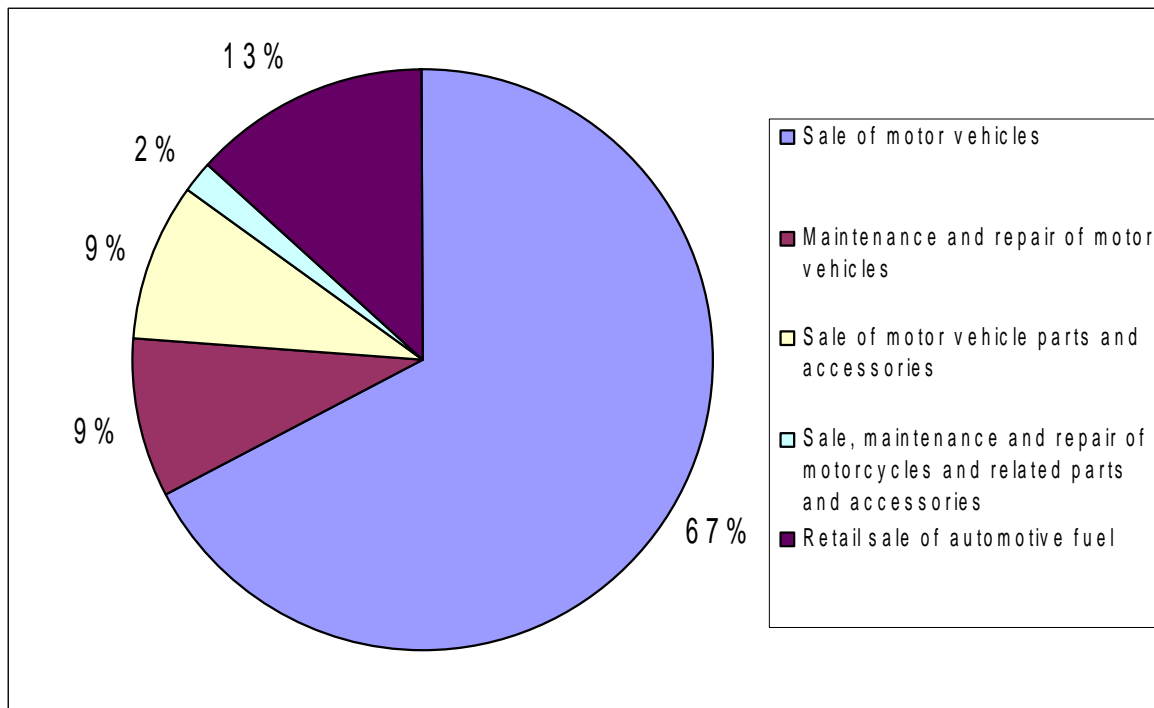
4.2 The motor industry in the UK comprises five sectors, according to the classification used by the Office for National Statistics:⁹

- sale of motor vehicles
- maintenance and repair of motor vehicles
- sale of motor vehicle parts and accessories
- sale, maintenance and repair of motorcycles and related parts and accessories, and
- retail sales of automotive fuel.

4.3 The market share of each of these sectors, in terms of turnover, is shown in Chart 4.1 below.

⁹ UK Standard Industrial Classification of Economic Activities 2003.

Chart 4.1: Composition of the UK motor industry in 2004, by sector turnover



Source: Office for National Statistics, Annual business inquiry.

4.4 The second sector (the maintenance and repair of motor vehicles), with a total turnover of £13.8 billion in 2004, is the relevant market in this study. It is an important component of the UK economy, accounting for around eight per cent of UK motor industry revenue and more than one per cent of UK GDP.¹⁰ It comprises three sub-sectors, according to industry sources:

- car servicing and mechanical repairs
- car body repairs, and

¹⁰ Office for National Statistics, Annual business inquiry.

- car breakdown and recovery services.

4.5 It is estimated that the first sector accounts for around 60 per cent of the car servicing market, while car body repairs account for around 34 per cent.¹¹

4.6 The car servicing and repair market has grown significantly since 1998, with the number of enterprises and the total market turnover having increased substantially, as shown in Table 4.2 below.

Table 4.2: The UK car servicing and repair market

	Number of enterprises	Turnover (£m)	Total purchase of goods, materials and services (£m)	Gross value added (£m)	Employment (1,000)	Employment costs (£m)	Net capital expenditure (£m)
1998	24,680	8,975	5,667	3,318	148	1,718	340
1999	26,089	11,118	7,236	3,898	154	1,930	303
2000	27,202	11,218	7,375	3,883	160	1,919	283
2001	27,862	11,890	7,817	4,134	168	2,176	307
2002	28,438	11,964	7,806	4,187	170	2,298	292
2003	29,188	12,347	7,983	4,467	176	2,547	327
2004	30,049	13,768	9,310	4,486	184	2,621	437
Increase (%)*	22	53	64	35	24	53	29

Source: Office for National Statistics.

Note*: Increases from 1998 to 2004.

¹¹ Keynote (2005), Market report 2005: automotive services

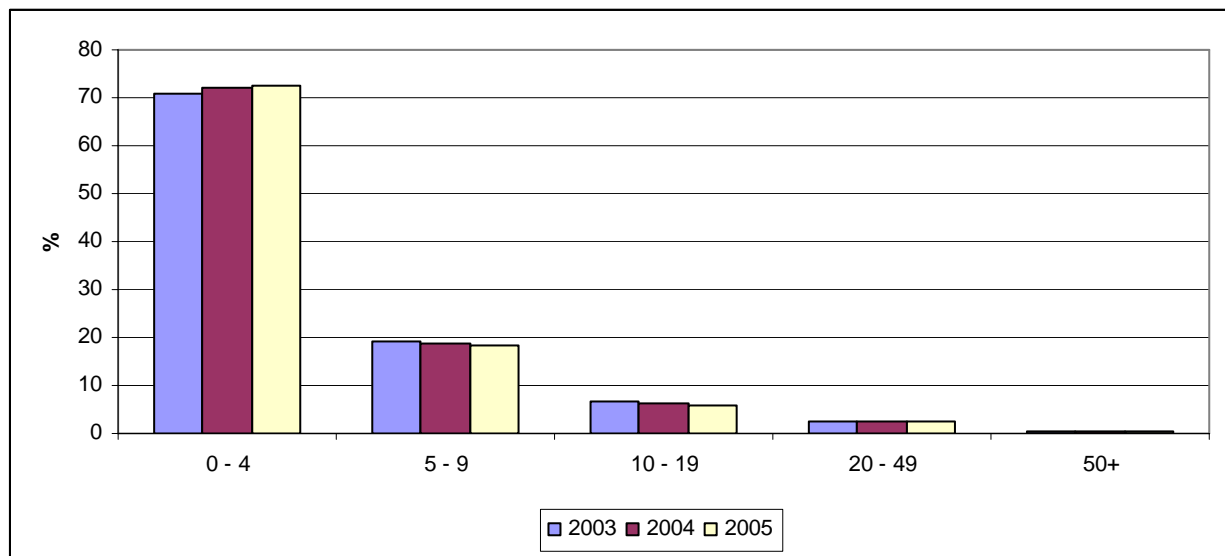
4.7 According to Keynote, a market research firm, enterprises involved in the car servicing and repair industry include:¹²

- franchised dealers, most of whom also distribute and sell vehicles
- independent garages, who mainly provide maintenance and repair services
- fast-fit chains, who provide quick remedies to relatively simple problems
- body repair shops, which generally require specialist equipments and expertise, and
- motoring organisations, such as AA and RAC, which provide mobile services and car breakdown and recovery services.

4.8 The number of market players in the car servicing and repair industry has increased significantly over the past decade, as shown in Table 4.2 above. The majority of these enterprises are small firms with fewer than five employees, as illustrated in Chart 4.3 below. In the past three years (the only period when data on the number of enterprises in different size-band are available), there has been a modest increase in the proportion of the smallest firms and a small decrease in the proportion of mid-sized firms.

¹² Europe Economics' own elaboration of Keynote (2005), Market report 2005: automotive services.

Chart 4.3: Proportion of garages, by employment size



Source: Office for National Statistics.

General trends in the car servicing and repair market

4.9 In addition to the OFT initiatives the car servicing and repair market is influenced by a range of external factors which affect the trading environment. These include the BER, technical developments such as computerisation, and commercial developments in the upstream market such as the reduction of new car prices. As a result the structure of the car servicing market has changed over time.

Impact of the BER

4.10 The main effects of the BER, which came into force in 2003, are that it enables independent garages to compete with franchised dealers on a more equal footing by giving them:

- the opportunity to become authorised by manufacturers, and
- access to technical information and spare parts needed to conduct maintenance and repair work.

- 4.11 The BER does not address the warranty restriction directly. However it is explicit that it would be illegal under the BER for manufacturers to use warranty terms to discriminate between franchised and authorised garages in respect of servicing. Any attempt to maintain the restriction at this level would be likely to be subject to successful legal challenge.
- 4.12 The EC explanatory notes on the BER make it clear that they would also expect discrimination against independent, but not authorised, garages to be illegal. However that is not a legally binding view. Lengthy action either by consumers or the competition authorities might have been necessary to put this to the test.
- 4.13 According to the latest data available, there were around 400 authorised independent garages in 2004, or around three per cent of total independent garages.¹³
- 4.14 Interviewees have given some reasons why the vast majority of independent garages have not become authorised. First, the technical and financial cost (including those resulting from technical advances as discussed later in this section) of achieving authorisation might prove too high for most independent garages because of their small size. The garages cannot justify the investment required for brand-specific equipment and skills unless they believe they could get enough extra work from the specific brands after being authorised.
- 4.15 Second, the BER provisions need operational guidelines to be effectively implemented, especially with respect to the issue of access to technical information. Interviewees commented that access to spare parts is not a concern for independent garages, as manufacturers are always happy to sell more parts. However, as discussed earlier, getting access to technical information is still a problem, as some of the information

¹³ National Consumer Council (2005), *At a crossroads: getting the UK car servicing and repair sector back on track*.

needed is either unavailable or only available at considerable cost. There was some concern that manufacturers were classifying some tasks as safety related in order to keep these within the franchised dealer service area.

- 4.16 Third, manufacturers have mixed feeling towards authorised garages. On one hand, manufacturers would like to expand their network to promote their brand; on the other hand, manufacturers are facing pressure from their own franchised network whose business might be competed away by authorised garages.
- 4.17 Fourth, there is no discrimination against independent garages in terms of technical competence required to become authorised garages. However, consumers might not be aware of the BER and the changes it had introduced, which means that they might still perceive authorised garages as inferior even though they have to meet the same technical requirement as franchised dealers. Another practical constraint might be the market share of manufacturers in particular localities, as authorised garages cannot justify their investment without enough potential customers. Given that garages are also effectively restricted by the geographical market, this may prove difficult.
- 4.18 Nevertheless we acknowledge that the BER came into effect only quite recently and that it might be too early to see the full results.
- 4.19 Facing more intensive competition facilitated by the BER, franchised dealers have tried to become more competitive, according to interviewees. They have invested more in marketing campaigns and tried to form better relationships with clients. Manufacturers would normally support their efforts by providing promotion packages and bonus schemes (an example of such schemes was given by one of the interviewees: BMW promoted a special servicing package in 2002 which is only available at franchised dealers in anticipation of the increased competition resulted from the BER) and sometimes financing the marketing activities. In addition, manufacturers would provide franchised

dealers with a database of customers so that it is easier for franchised dealers to target marketing.

Technical developments

- 4.20 In the last five to ten years, there have been significant technical developments in car manufacturing.
- 4.21 One major technical development is that more vehicle functions are now controlled by computers. Indeed it is now normal for a car to have several computers connected to a central computer via a common protocol specified by the manufacturer. Diagnosing problems and performing servicing and repair tasks have, as a result, become much more reliant on computers in the vehicles.
- 4.22 One consequence is that, in conducting car servicing work, garages need diagnostic tools which can 'speak to' the computers in the car and provide technical data about the car. Different manufacturers use different technical formats/protocols, which mean that garages have to purchase brand-specific software and diagnostic tools. The average cost of this category of diagnostic tools is around €5,000, but the most expensive can cost as much as €15,000.¹⁴
- 4.23 Although generic tools are available at much lower prices (ranging from €1,000 to €8,000), they are not as useful or as widely available. Manufacturers do not currently provide enough necessary technical information (e. coding) to generic diagnostic tools producers, who have to use 'reverse engineering' – an expensive and time consuming process – to develop tools. Therefore generic tools for only the most popular cars or systems (for example, brake systems) have been produced. We

¹⁴ European Commission (2004), *Do motor vehicle suppliers give independent operators effective access to all technical information as required under the EC competition rules applicable to the motor vehicle sector.*

were told that no generic diagnostic tools are capable of fully servicing any new car. Moreover, anti-theft devices, such as a special code for each car, are deployed by some manufacturers. Only the manufacturer has access to this code, and the car would become unusable if parts are replaced without the correct code.

- 4.24 A consequence of the technical developments mentioned above is that the fixed costs of equipping a garage to service new cars have increased. This represents a higher barrier to entry and will have increased the minimum turnover of vehicle servicing necessary to break even.¹⁵

Prices of cars

- 4.25 Prices of new and used cars have fallen over the past several years. According to the latest Alliance & Leicester Car Price Index, the average new car price fell from £14,397 to just over £13,000 from June 1999 to June 2004, a 9.2 per cent drop. The average prices for nearly new cars (one year old) and used cars (three years old) fell by 21.9 per cent and 24.6 per cent respectively during the same period.¹⁶ More information on price movement is included in Table 4.4 below. Although we do not have data for the last two years, it can be seen that the trend has been downward. For comparison, the Retail Price Index (RPI) rose 12.8 per cent during the same period.

¹⁵ According to the Office for National Statistics, around 40 per cent of enterprises involved in car servicing and repair in the UK have turnover less than £100,000, which suggests that the costs of brand-specific diagnostic tools would be a significant financial investment for these firms.

¹⁶ Alliance & Leicester Car Price Index produced in association with *Which Car?* has been discontinued. The latest index available was published in August 2004.

Table 4.4: Reduction in prices of cars sold in the UK from June 1999 to June 2004 (%)

Category	New cars	Nearly new (one year old)	Used (three years old)
City cars	18.4	20.1	23.1
Superminis	2.5	24.4	16.8
Small cars	11.4	16.7	26.7
Family cars	14.4	27.0	34.1
MPVs	14.8	21.4	27.9
4X4 off-roaders	3.3	2.7	5.1
Compact executive cars	7.7	20.7	16.5
Executive cars	10.1	35.6	28.0
Luxury cars	5.4	20.4	21.0
Total	9.2	21.9	24.6

Source: Alliance & Leicester Car Price Index, August 2004.

Note: 4X4 Off-roader category introduced in February 2002. Percentage change shown for 4x4s is from February 2002 to June 2004.

4.26 The price reductions were, according to the Alliance & Leicester Car Price Index, due to 'increased competition from cheap imports, a situation which was compounded by the lifting of Voluntary Export Restrictions (VERs) and media coverage of the 'Rip off Britain' campaign which led to a Competition Commission report into the relative prices of cars across Europe'.¹⁷

¹⁷ www.alliance-leicester-group.co.uk/upload/pdf/PR1008042.pdf

- 4.27 Some interviewees suggested that, as car prices have been falling, the after-sales market has become more important for car manufacturers in maintaining revenue and profitability. However, we do not have direct data to support this view.

Other changes in the car servicing industry

- 4.28 Although we do not have data to follow how the structure of the industry has changed in the last 10-15 years, we can make observations based on a number of comments from stakeholders regarding changes in the last few years.
- 4.29 One observation is that there are now more small businesses (operating on two to three ramps), but fewer medium sized firms (operating on about six ramps).
- 4.30 Another comment that we received was that manufacturers now have a higher degree of control over dealers' operations. Dealers rely on the manufacturers' guidelines to charge consumers and have to stick to the service standards outlined by the manufacturers. Increasingly manufacturers are specifying servicing schedules. As servicing intervals increase due to increased quality, there has been more checking and inspection work and less servicing work. This checking and inspection work is also used as a marketing tool (for example, a '21 point check' or a '62 point check') to generate more servicing and repair business.
- 4.31 In addition, fast-fit chains have become a more prominent part of the market. These garages offer quick remedies for relatively simple problems and have a lower cost base since the work force needed to perform such simple tasks need less training and experience. Fast-fits normally fit or replace parts such as exhaust pipes, tyres, suspensions, brake pads or linings, which are less likely to be required for cars that are less than three years old, and therefore mainly affect competition in the older car segment of the market.

4.32 Some interviewees also commented that franchised dealers normally do not compete with each other, either intra- or inter-brand. Dealers of different manufacturers do not compete with each other at the moment, although in theory they may be able to do so. For example, a Ford dealer does not try to win servicing customers from Vauxhall or vice versa. Different dealers of the same manufacturers also do not compete with each other, as they have similar charge-out rates (at least in the same region), and manufacturers issue guidelines on the time required to finish each service, which is usually followed by dealers. It was noted that independent garages could also buy these guidelines from the ICME database.¹⁸

Car Warranties

4.33 The standard length of car warranties now appears to be about three years with unlimited mileage. However, there are examples of manufacturers offering longer warranties, notably Hyundai, who offer a five-year warranty.

4.34 Manufacturers have now dropped the specific contractual restrictions which tied the warranty to servicing at a franchised garage.

4.35 However, this does not necessarily mean that customers are now well placed to make an informed choice on where the car is serviced. There are two further aspects to making the change in servicing restriction effective. The first is for the consumers to be informed of the change, and second for the change and its implications to be accepted fully by the manufacturers.

4.36 Stakeholders commented that, in general, consumers are not told explicitly that the contractual restriction is no longer in place. Such information is available on request and is available in the SMMT code of

¹⁸ www.eurotaxglass.co.uk/product/icme.htm

practice, but the change is not highlighted. In our discussions with stakeholders it was also frequently pointed out that sales staff in franchised outlets have no incentive to tell clients voluntarily that their warranties would remain valid even if their cars are serviced at garages other than franchised dealers.

- 4.37 We have reviewed the guidance on the warranties available on the websites of seven major car manufacturers. For the most part we found no explicit reference to the option that the car may be serviced at an independent garage.
- 4.38 The guidance given by manufacturers varies in tone and content. Ford's guidance recognises that servicing can be carried out at a non-Ford dealer but gives cautionary guidance on the steps necessary to maintain the validity of the warranty in this situation. Others are less specific.
- 4.39 Peugeot encourages use of its authorised repairer network (which goes wider than franchised dealers) to 'ensure that you maximise the future value of your Peugeot.' Mercedes includes a general caveat that problems will not be covered by the warranty if servicing is not carried out in accordance with the manufacturer's instructions. BMW reserves the right to reject a warranty claim if the cause of the defect is due to repair by a non-authorised repairer. Hyundai includes a recommendation that 'To be certain that your car is maintained to the standards required, we strongly recommend that you always take it to an authorised Hyundai dealer'.
- 4.40 Even where the option of having a car serviced at an independent garage is acknowledged, the caution about risks and about the information that the car owner may need to provide in the event of a warranty claim may itself be a significant deterrent in light of the inability of consumers to assess servicing quality themselves.
- 4.41 In addition, if a car developing a defect has previously been serviced at an independent but non-authorised garage, the burden of proof is on the consumer to maintain sufficient records to demonstrate that the car has been appropriately serviced.

4.42 In summary, the terms and conditions of car warranties have changed and there is no longer a contractual restriction that the car be serviced at a franchised dealer for the warranty to remain valid. However, this change is not highlighted. In addition it can be couched in discouraging language by the manufacturers, which means that it may not result in a substantial practical change for consumers.

5 CONSUMER AWARENESS AND SERVICING CHOICES

- 5.1 This section draws heavily on the consumer survey conducted by MORI. The survey is based on 704 interviews conducted with adults aged 17 + who had acquired a brand new car in the last three years (either financed privately, by a company, or by the Motability or similar scheme.)¹⁹ Interviews were conducted over the telephone between 14 and 26 February 2006.
- 5.2 The sample was drawn from a commercial database of new car buyers. Quotas were set on type of car (from SMMT market share data), age, gender and social class. The basic criterion for inclusion was that respondents had to be responsible for the choice of where their car was serviced. The data was weighted by age of respondent and age of car, to ensure that the sample size was representative of the population of new cars and to ensure comparability with the 2003 survey.²⁰
- 5.3 Although a sample size of 700 + might normally be sufficient to draw statistically reliable inference, in some instances the usable sample drops in the range of 20 to 40 observations - particularly when we look at those exposed to the OFT campaign. In these cases, the results come with a higher margin of error.
- 5.4 As before, we supplement the survey results with stakeholder interviews and desk-based research wherever possible.

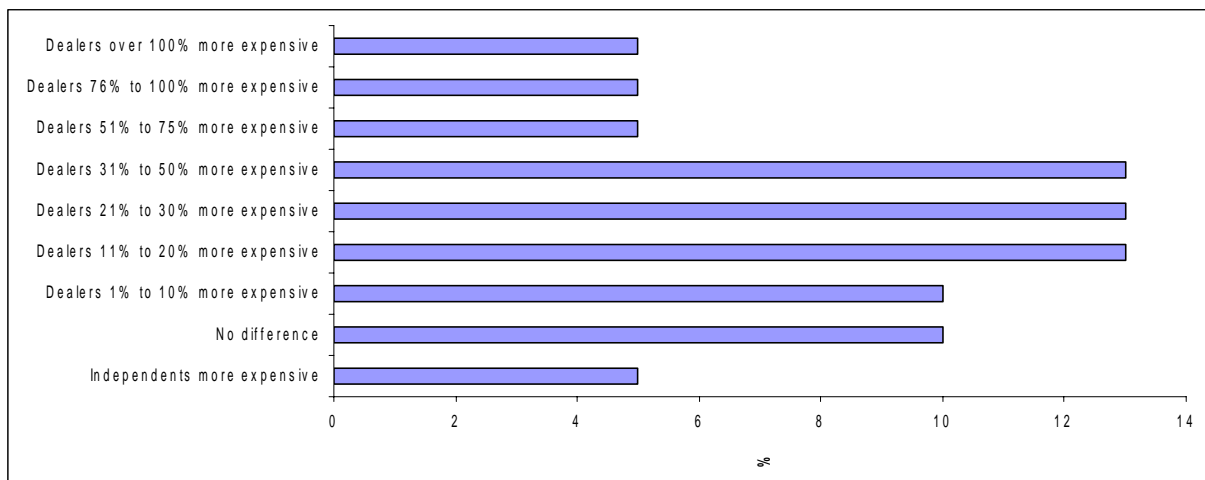
¹⁹ Motability consumers are defined as those who bought the car under a Motability Scheme. The scheme enables disabled people to use their government funded mobility allowances to obtain safe, affordable transport. 99 per cent of the vehicles are cars provided under contract hire or hire-purchase agreement. For more information see www.motability.co.uk

²⁰ For further details of the survey see Annexe B.

Prices of servicing

- 5.5 Direct information on price differentials and quality would require a mystery shopper exercise similar to that performed for the 2003 study. However, the 2003 mystery shopper survey was quite small, and only changes in price of more than 25 per cent could possibly have been picked up with statistical accuracy with a similar study this year. Since there was no reason to believe that changes in price have been so substantial, the OFT felt that the benefits would not justify the cost of repeating the mystery shopper survey for this year. We have no other direct data on price and quality differentials between franchised dealers and independent garages.
- 5.6 We have, therefore, used consumer and stakeholder responses to form an idea of their **perceptions** of price differentials. In reality this may not be the same as actual price differences because it depends on recall data, which is subject to error.
- 5.7 For this reason, we supplement recall data on prices with other publicly available information to derive broad brush current estimates of the price differentials.
- 5.8 Only 12 per cent of consumers (65 in number) compared independent garages and franchised dealers when deciding where to have their car serviced. Of these, 64 per cent reported that franchised dealers were more expensive, as compared to 10 per cent who found no difference in prices and five per cent who found franchised garages to be less expensive. The remaining consumers (21 per cent) did not know or could not remember.
- 5.9 The price differentials reported by respondents who compared the prices of franchised dealers and independent garages are shown below.

Chart 5.5: Price difference between franchised dealers and independent garages



Source: Consumer survey data 2006.

Note: this graph includes only people who have compared prices.

5.10 When franchised dealers were found to be more expensive, the premium over independent garages was almost 40 per cent. This is in line with the earlier DTI study. Table 5.6 below breaks down the actual cost of service for the last service by type of garage:

Table 5.6: The cost of the most recent service

	Mean cost of most recent service ¹ (£)
Overall average	162
Franchised dealer for that make of car	171
Independent non-franchised authorised garage	111
Independent non-franchised, non-authorised garage	122 ²
Non-franchised average	115

Source: Consumer survey data 2006, base 429.

Note 1: 'Free' services not included in the averages.

Note 2: small sample size.

5.11 Table 5.6 shows that on average, consumers going to franchised dealers paid £56 (£171 minus £115) more than those going to non-franchised dealers, an average premium of almost 50 per cent over independent garages. However, this price difference does not adjust for systematic differences in the profile of cars going to each kind of garage.²¹

²¹ Although we do have some data on the profile of the cars (namely the age, make and annual mileage), we do not make adjustments for it in the choice of where to get the car serviced, and therefore the amount paid. This is because the differences in the cars on age make and annual mileage were not found to be statistically significantly different when comparing the cars taken to independent garages vs. franchised garages. A large part of the reason for this is small sample sizes. For example, only one car with a '55' registration was taken to an independent garage. Only three Vauxhalls and five Fords were taken to an independent, non-authorised garage.

- 5.12 In comparing the prices between non-franchised authorised garages and non-franchised non-authorised garages, it appears that authorised garages are less expensive. This is counter-intuitive as it would be logical to assume that authorised garages have higher costs relating to authorisation and compliance. A possible explanation is that the number of people going to non-franchised garages was very small: the average price for the non-franchised, non-authorised garages was constructed from a sample of only 26 consumers. This can make the average highly sensitive to even one or two outliers.
- 5.13 Removing the outliers by using a simple statistical rule which excludes observations that lie outside two standard deviations of the average, we get an average price of £162 for franchised dealers, £111 for independent authorised garages and £101 for non-authorised independent garages, which is closer to what we might expect, with franchised garages being the most expensive, followed by authorised garages, and with independent non-authorised garages being the least expensive.
- 5.14 Since a similar question was not asked in the previous survey, it is not possible to compare how this has changed over time. However, the results from the previous DTI mystery shopper exercise indicated that in 2002 the median price charged by franchised dealers was 70 per cent higher than the median price charged by independent garages.²²
- 5.15 Some stakeholders have also suggested that franchised dealers could today be 60 to 70 per cent more expensive as compared to independent dealers, although this depends on type of service and car.

²² Department of Trade and Industry (2002), Car servicing and repairs: mystery shopping research.

5.16 Another source of price information, although again not directly comparable to the 2003 mystery shopper exercise, is an article published in the April 2006 issue of 'What Car?' magazine.²³ The article uses data from a mystery shopper survey which asked for price quotations over the phone. Typical servicing prices at non-franchised garages and franchised dealers are provided for a range of cars. There is variation in the prices quoted for the same cars by franchised dealers based on broad geographical location within the UK, and a table of the highest and lowest quotes for each region is provided for comparison. We use the data published in the article to provide an indication of the suggested price differential. This is shown in Table 5.7 below.

²³ *Rip-Off Servicing*, What Car? April 2006.

Table 5.7: Price differential for cars of different brands

	Typical price at non-franchised garage	Average price at franchised dealer ¹	Price differential ² (%)
Audi A4 1.9 TDI	£140	£330	136
BMW 318i ES	£150	£268	79
Citroen Picasso 2.0 HDI LX	£180	£198	10
Ford Focus 1.6 16v	£110	£153	39
Honda Civic 1.6 SE	£140	£264	89
Peugeot 206 1.1 LX	£160	£275	72
Renault Clio 1.2 16v	£170	£293	72
Vauxhall Corsa 1.2 16v	£120	£175	46
VW Golf 1.6 Match	£150	£296	97
Average	£147	£250	71

Source: Europe Economics from 'What Car?' April 2006 data.

Note 1: The average price in this table is calculated as a simple average of the dearest and cheapest price quoted for the geographical regions surveyed.

Note 2: Price difference calculated as a percentage of non-franchised dealer's price.

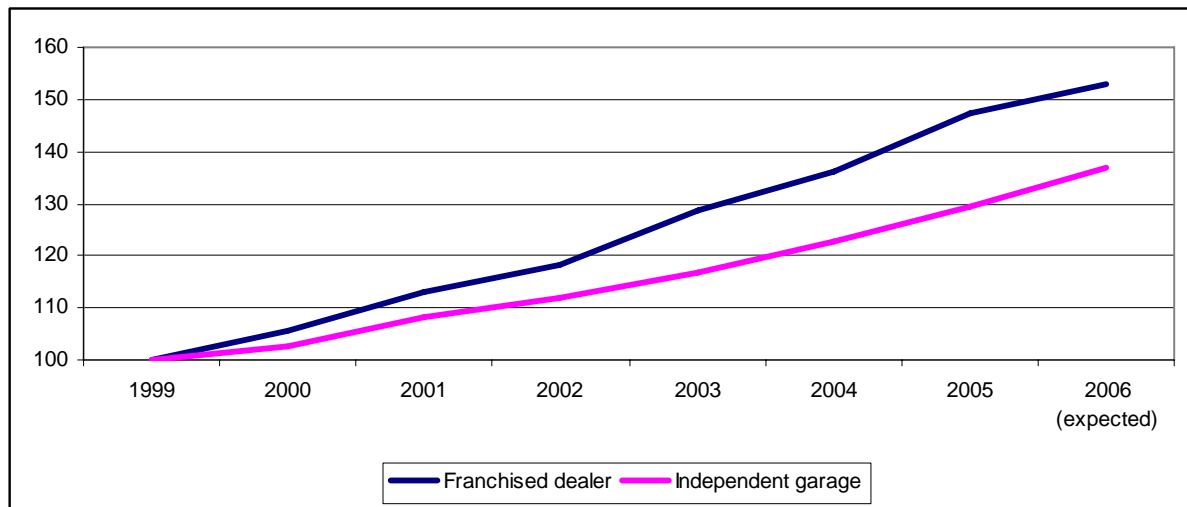
5.17 The table suggests an average premium of about 70 per cent, but with considerable variation based on type of car.

- 5.18 A final source of information that can help determine price differentials is labour charge-out rates. The data on labour rates charged by both types of garages actually indicate an increase in the differential between franchised and independent outlets.²⁴ Normally the final servicing price comprises two parts: labour costs and material costs (if applicable). The share of labour costs in the total servicing price may vary across different types of servicing/repair work and we have no accurate information on this.²⁵ However, in the absence of any identifiable change in the relative costs of materials or relative productivities (for example, number of hours required to conduct a certain task), changes in price differential would be in line with changes in the difference in labour costs charged.
- 5.19 Chart 5.8 below graphs the charge-out rates of both franchised dealers and independent garages and shows that while both have increased significantly, the former has increased more quickly, leading to a widening of the gap between the rates charged.

²⁴ Sewells, *The retail motor industry pay guide*.

²⁵ The 2002 DTI study suggested that, for median price, labour costs account for around 35 to 40 per cent of total servicing costs of franchised dealers and 52 per cent of independent garages. One interviewee suggested that labour costs generally account for 70 per cent of total costs.

Chart 5.8: Charge-out rates of franchised dealers and independent garages



Source: Sewells, *The retail motor industry pay guide*.

Note: 1999 = 100

5.20 Table 5.9 summarises the various sources and estimates of price differential that we have discussed above. Although the data we have seen does not allow us to form a robust view on changes in price differentials since the 2003 study, it is clear that prices charged by franchised garages are still significantly higher than those charged by independent garages. The premium charged by franchised dealers over independent garages could be between 40 and 70 per cent.

Table 5.9: Estimates of price differentials

Source of data	Premium charged by franchised garages over independent garages
Survey results 2006: average premium estimated by those who compared prices and thought franchised garages were more expensive	40%
Survey results 2006: difference in average cost of most recent service	50%
Stakeholder views	(can be up to) 60-70%
'What Car?' magazine data	71%
Labour charge-out rates	Price gap between independent garages and franchised dealers increased a further 4% between 2003 and 2005

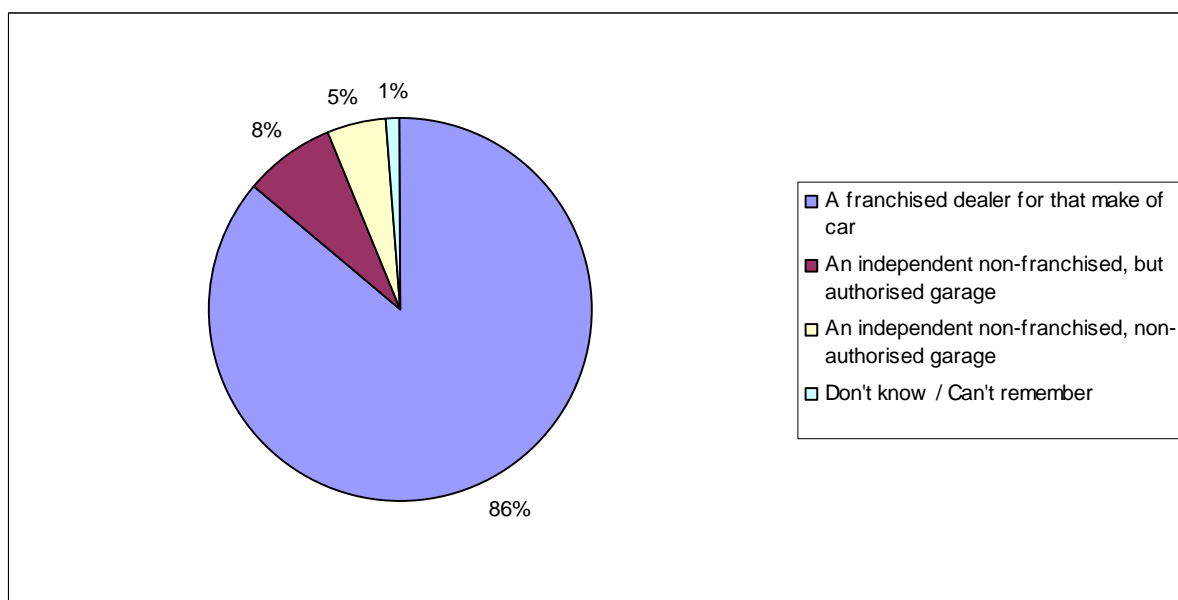
5.21 We should also take into account stakeholders' views on the reasons for the price differential. Several interviewees commented that the price differential could, at least partly, be ascribed to the cost of overheads and add-ons such as a pick-up service or a courtesy car, and reception facilities that improve the servicing 'experience' for the consumer but not necessarily the servicing quality for the car. Some interviewees noted that these additional services and amenities are a healthy part of product differentiation and that it is not necessarily desirable to have a uniform standard of customer service, and therefore a uniform price.

Servicing choice and preferences

5.22 The survey results indicate that the percentage of consumers choosing to get their car serviced at a franchised dealer has declined from 91 per cent in 2003 to 86 per cent this year. Clearly, although their market share has declined, franchised dealers still service the vast majority of new cars.

5.23 The share of non-franchised, non-authorized garages has also declined from seven per cent to five per cent. There is a corresponding increase in consumers choosing to go to authorized independent garages, which is now eight per cent. Although we do not have a direct comparison for this category from 2003, the percentage of people choosing to take their car to a franchised dealer for a different make of car was one per cent in 2003. It appears that overall, authorized garages have gained market share in comparison with other garages. Chart 5.10 below illustrates market shares based on this year's survey results.

Chart 5.10: Response to the question: 'During the time you have owned/had use of it, in which of these places have you had the car serviced?'



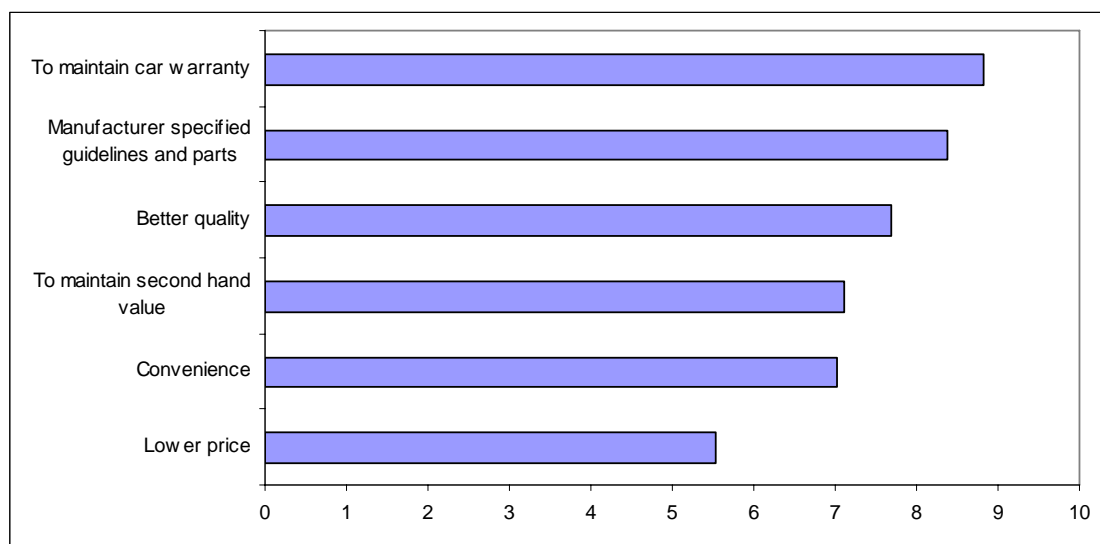
Source: Consumer survey data 2006.

Consumers choosing franchised dealers

5.24 Probing into the reasons for choosing a franchised dealer, consumers were asked to rate each of six reasons on a scale of 0 to 10, where 0 indicates no importance and 10 indicates very great importance. Chart 5.11 below illustrates the results, comparing the average score received

for each response amongst all the people who chose a franchised dealer.²⁶

Chart 5.11: Reasons for choosing a franchised dealer



Source: Consumer survey data 2006.

5.25 The average score that the options received was 7.4. The options, 'to maintain a car warranty', 'to ensure that the service followed the guidelines and parts specified by the manufacturer' and 'better quality' were all above average in score, with 'maintaining the car warranty' being the most important reason.

²⁶ This chart is based on data from 490 responses. Since the sample size was high, the scores are quite precisely estimated with 95 per cent confidence levels of no more than half a point on either side of the average. The standard errors for the variables are: lower price 0.16, better quality 0.11, to maintain car warranty 0.09, to maintain second hand value 0.13, convenience of garage 0.13, and manufacturer specified items 0.10.

- 5.26 The fact that car warranties and better quality both come up as so important in the car servicing decision also sheds light on consumer awareness. Consumers appear to be willing to pay more in the belief that franchised dealers offer them both.
- 5.27 Even amongst people who thought that they could go to any independent garage for the warranty to remain valid, the average score given to maintaining the car warranty was 7.8. In comparison, the average score given to this reason by people who believed that they had to go to a franchised dealer for the car warranty to remain valid was 9.0.
- 5.28 So on average, people who knew that they could go to an independent garage but chose a franchised garage place marginally less importance on maintaining the car's warranty as a factor in their decision of where to get the car serviced. However, this difference is small and suggests that consumers are still not sure that their car warranty would actually remain valid if they chose an independent garage, even if they know that in theory that it should. This may imply that consumers are not able to assess whether the independent garage they choose would ensure that manufacturers' technical standards are met.
- 5.29 The next most important reasons, 'better quality' and 'being sure that the manufacturer's guidelines and parts have been used', are closely related. Both reasons indicate that the consumers who use franchised garages do feel that these garages offer them a better service in line with manufacturer's recommendations.
- 5.30 We now turn to another important factor which may influence consumers' choice of garage: maintaining the car's second-hand value. This is given as an important factor in choosing a franchised dealer for servicing. In order to investigate further the implicit value that consumers place on maintaining the car's second hand value, we compare the saving from choosing an independent garage to the trade-in value of the car. Table 5.12 below constructs estimates from cars on the low end, and the top end of the market.

Table 5.12: Servicing savings as a fraction of car's value

	Ford Focus 1.6 16v	Audi A4 1.9 TDI
Average price of service at franchised dealer	145	317
Average price of service at independent garage	110	140
Difference in prices	35	177
Year one: Trade in value	6,445	11,445
Cumulative saving	35	177
Saving as a percentage of total value	0.5	1.5
Year two: Trade in value	5,395	10,045
Cumulative saving	70	354
Saving as a percentage of total value	1.3	3.5
Year three: Trade in value	4,495	8,845
Cumulative saving	105	531
Saving as a percentage of total value	2.3	6.0

Source: Europe Economics with data from 'What Car?' Survey of service charges April 2006 and part exchange price guide.

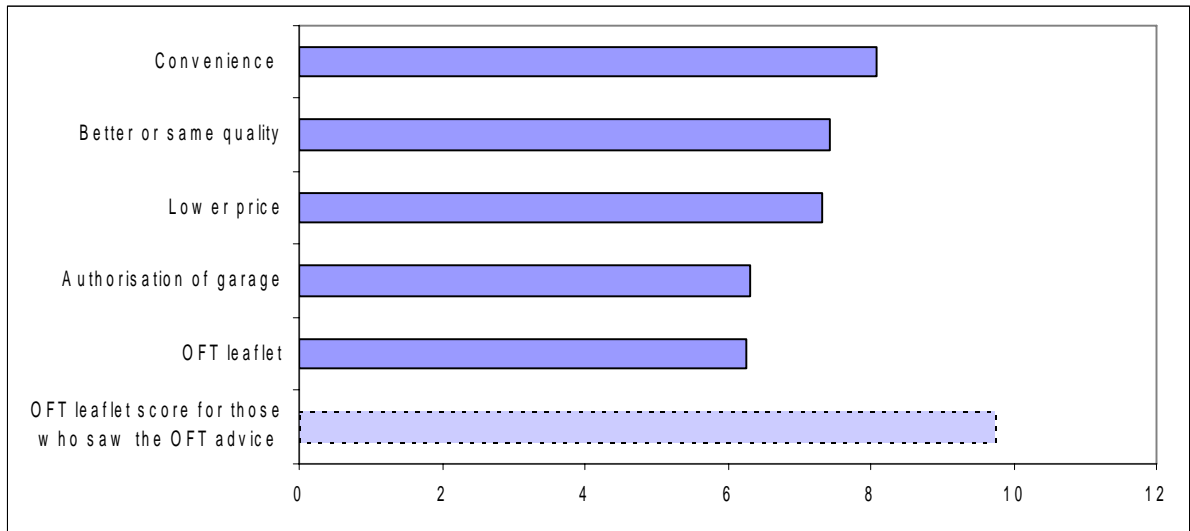
5.31 From the table, we can see that the saving can be as little as 0.5 per cent, which implies that there has to be very little fall in a car's second hand value due to servicing at an independent garage for the entire saving to be wiped out. This suggests that choosing a franchised dealer to maintain second hand value could be a rational, informed choice by consumers who compare relative savings when taking the decision.

Consumers choosing independent garages

5.32 Consumers who chose to visit an independent garage were also asked for the factors that influenced their choice. Chart 5.13 below illustrates the responses, graphing the average score received for each response for all the respondents who chose an independent garage. Since independent garages have a smaller share of the market, these scores are based on a smaller sample size (70 respondents) as compared to the

scores for franchised garages in Chart 5.11 above, which are based on 490 respondents.²⁷

Chart 5.13: Reasons for choosing independent garages



Source: Consumer survey data 2006.

5.33 'Convenience' (of location or timing) is clearly the top factor in choosing an independent garage. This is supported by comments from stakeholder interviews as well, which suggest waiting times of up to four weeks to book a car in for a service at a franchised dealer.

5.34 'Better or same quality' also comes up at the top end of the list. This indicates that consumers who do choose independent garages do not necessarily think that they are compromising on quality. In fact 84 per cent of respondents who chose independent garages gave the 'better quality/no quality difference' a score of five or more.

²⁷ The smaller sample leads to wider confidence intervals. The 95 per cent confidence intervals for this set of responses are always within one point on either side of the average score, except for the score on the OFT leaflet which is slightly wider. The standard errors are: lower price 0.33, better/same quality 0.365, OFT leaflet 0.48, convenience of garage 0.33, and authorisation 0.39.

- 5.35 The result relating to lower price is not surprising given the findings from elsewhere in the survey and from desk-based research which indicates that independent garages are less expensive. What is surprising is that the lower price is not the most important factor, and as seen from the results concerning quality, consumers who choose independent garages do not necessarily feel that this lower price comes at the cost of poor service.
- 5.36 Authorisation of garages also comes out as important, but not crucial for most people. In total 77 per cent of respondents said that it was at least somewhat important (a score of five or more). However, of the options available, this was least likely to be given a score of '10'. This is probably because there are, at present, very few authorised garages and, for most people, this question was therefore not relevant in choosing the garage. The data show that people who believed that they could take their car to any authorised garage for the warranty to remain valid had a higher than average score on this factor (7.5 compared to a mean of 6.3).
- 5.37 The score for the OFT leaflet question was the lowest amongst the factors considered, though by only a small margin. However, this relatively low score does not necessarily mean that the OFT leaflet was unimportant, or that it did not influence people's choices. Looking at responses in detail, we find a clustering at either '0' or '10' (each category accounting for around one third of the responses). Only people who had seen the campaign in some way were likely to give a non-zero response, but amongst this group the response was very positive.
- 5.38 The data support this: all the individuals who had seen or heard the OFT campaign gave this factor a score of nine or 10, indicating that the OFT leaflet was a highly influential factor amongst people who were exposed to the campaign and chose an independent garage. This is illustrated in the additional bar in Chart 5.13.

Fleet operators and business buyers

- 5.39 Fleet operators form another important part of the demand for the servicing of new cars. They purchase and arrange servicing for over 40 per cent of new cars each year.²⁸ Interviewees representing fleet operators indicated that the trend was to keep new cars for about three years, after which they are re-sold.
- 5.40 Interviewees commented that both fleet operators themselves and the leasing companies, from which they normally lease their vehicles, can have strong incentives to service their cars at franchised dealers. Fleet operators also like to be seen as 'quality fleet operators' to gain consumer confidence. Servicing the cars at franchised dealers makes it easier to demonstrate that safety regulations are complied with.
- 5.41 Leasing companies have more bargaining power than individual consumers and are able to negotiate good prices. In addition, maintaining a good relationship with manufacturers ensures that they receive good prices for the vehicles themselves.
- 5.42 Interestingly, fleet operators also felt more positively affected by the changes in the market. One interviewee commented that, as large-scale consumers, they were well aware of the OFT and the BER initiatives and could undertake an independent information dissemination campaign amongst their members. Their members were well informed and many took advantage of the option to carry out the car service at independent garages, mainly because of the flexibility offered. Those who continued to choose franchised dealers took an informed choice since, as large scale consumers, they could negotiate attractive deals.

²⁸ SMMT data, SMMT Economics Department, October 2005.

5.43 In addition, it was suggested that assessing the quality of servicing was not a problem for fleet operators. They had in-house technicians who could liaise with the garages and therefore were better informed than individual consumers.

Consumer awareness

5.44 The consumer survey shows that just 12 per cent of consumers compare independent garages and franchised dealers when deciding where to have their car serviced.²⁹

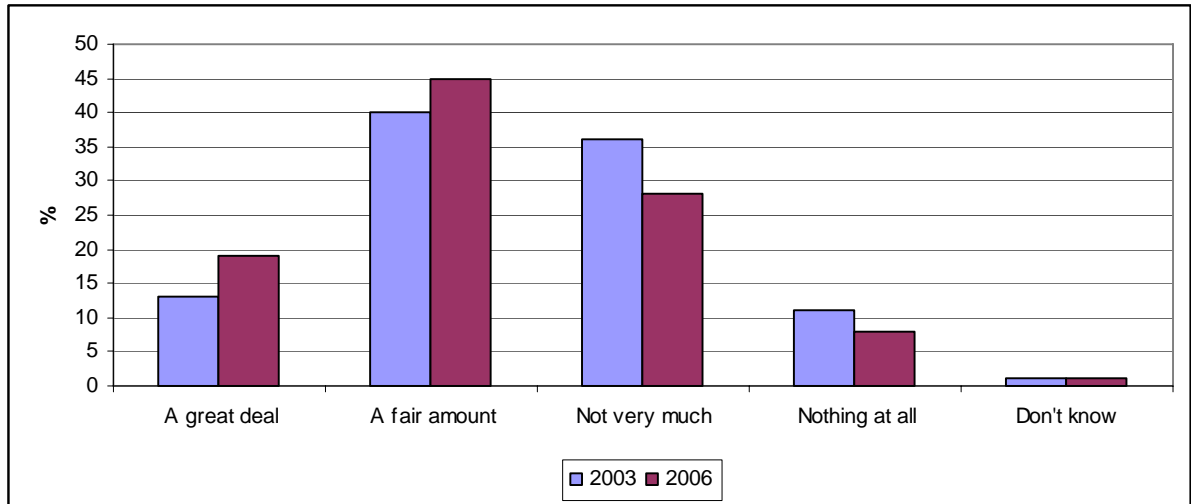
5.45 Some individuals may not have an incentive to compare prices since they do not pay themselves for the car service. We looked, therefore, at price comparison behaviour amongst some sub-samples within the survey: those who said that they paid for the car service, those who have had their car serviced more than once (to account for a first free service), and those who are private car users (to account for company cars and Motability vehicles).

5.46 However, even within the sub-samples of people described above, who do have an incentive to compare price, the percentages of consumers doing so is low and is still in the 12 to 13 per cent range.

5.47 Survey respondents were also asked directly how much they would say they know about the terms and conditions of their car warranty. Since this set of questions was asked in 2003 and in 2006, it is possible to compare changes in awareness over this period as illustrated by Chart 5.14 below.

²⁹ The standard error for the estimate of people comparing prices is 0.0135, leading to a 95 per cent confidence interval that ranges from 8.9 per cent till 14.2 per cent.

Chart 5.14: Response to the question 'How much would you say you know about the terms and conditions of the warranty on your car?'

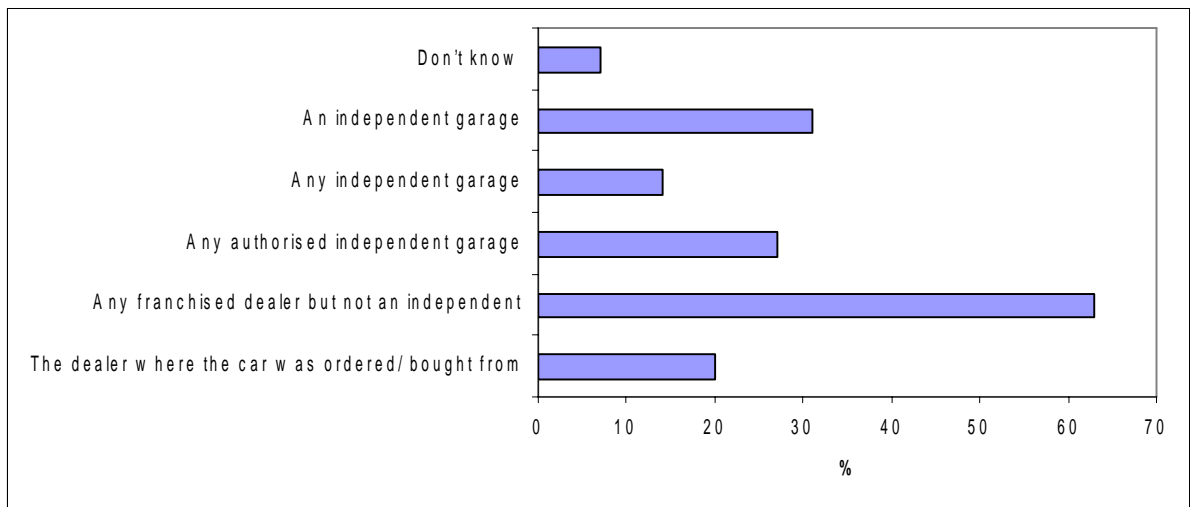


Source: Consumer survey data 2006.

5.48 The chart shows an increase in claimed awareness, with more people saying that they know a great deal or a fair amount, and fewer people claiming to know 'not very much' or 'nothing at all'. Nevertheless, even with increased levels of awareness, 36 percent of consumers claim not to know much about the terms and conditions attached to the warranty.

5.49 Consumers were then asked where they **think** they can have their car serviced. Chart 5.15 below shows the results. The responses show, again, that more consumers now know that they can have their car serviced at a non-franchised dealer. However, the percentages are still small: in 2003, nine per cent of consumers thought they could have their car serviced at an independent garage. Although this has increased significantly to 14 per cent this year, the absolute percentage is still small, and only 27 per cent of consumers responded that the car could be serviced at an authorised repairer.

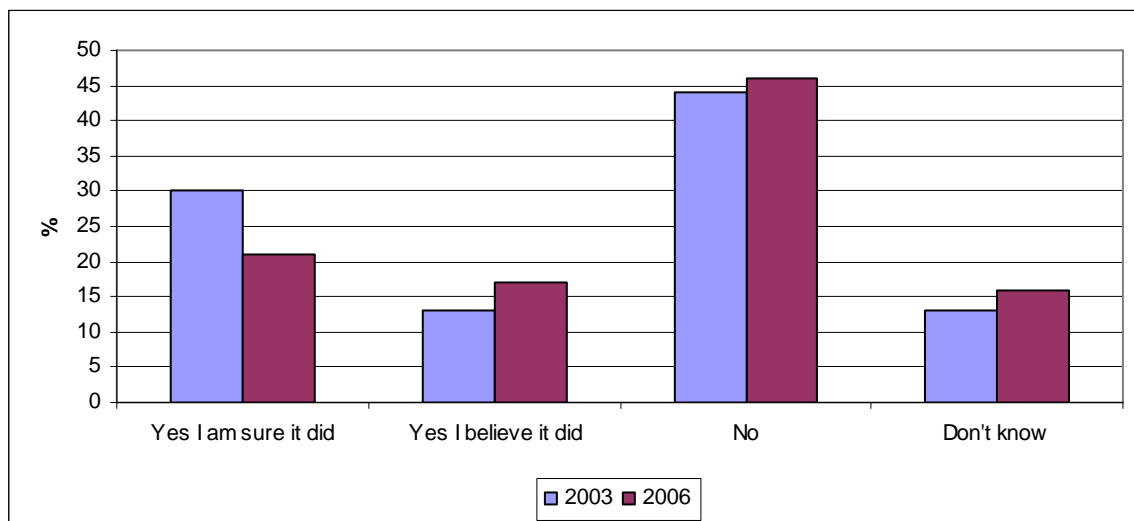
Chart 5.15: Response to the question 'Where can / could you have your car serviced, under the terms of its warranty?'



Source: Consumer survey data 2006.

5.50 In addition, consumers were asked specifically if the warranty imposed restrictions on their choice of where their car could be serviced for the warranty to remain valid. Chart 5.16 below illustrates the results.

Chart 5.16: Responses to the question 'Did the car warranty impose any restrictions on where you could have the car serviced for the warranty to remain valid?'



Source: Consumer survey data 2006.

5.51 The results do not give a clear picture: the increase in people who said definitively that there was no restriction increased by just two percentage points, from 44 per cent to 46 per cent, but is more than offset by the three percentage points increase in people who do not know. Also, while the percentage of people who say they are sure that the warranty imposes restrictions on where they can have their car serviced has decreased by nine percentage points, those saying that they believe or assume that the warranty imposes restrictions has increased by four percentage points. In summary, although fewer people are sure that there is a restriction, more people exhibit uncertainty.

5.52 Of the respondents who indicated that they believed that they were restricted in their choice of where to get their car serviced, 41 per cent claimed that they would definitely consider going to an independent garage if there was no restriction. A further 29 per cent said that they would possibly consider an independent garage. This suggests a total of 70 per cent who would possibly or definitely consider independent garages if they thought there were no restrictions. On the other hand,

28 per cent responded that they would probably or definitely not consider independent garages. This re-confirms results from other parts of the survey that indicate that although maintaining the validity of the car warranty is an important reason for choosing a franchised dealer, it is not the only one.

- 5.53 The survey asked, in addition, about the main sources of information that consumers used in connection with the warranty. This question was also asked in 2003 so it is possible to compare the responses between the two years. There are two major sources of information: first the dealer who supplied the car, and second the documentation supplied with the car. Consumer usage of dealer-supplied information has increased from 50 per cent in 2003 to 60 per cent this year, while usage of the documentation supplied with the car has declined from 37 per cent to 32 per cent. Other responses such as mechanics, family and friends, articles in newspapers etc did not receive more than five per cent of the responses. Notably, 'the OFT' and 'leaflets in magazines' received no responses in the unprompted question.
- 5.54 It is also possible to break down awareness by source of information, which would be useful in determining the role that dealers play in informing consumers. This is, however, complicated by the fact that the question which asked where consumers found out what they knew about car warranties was a multi-code question, such as, it allowed consumers to specify more than one source. Therefore, when interpreting the results it should be kept in mind that although we distinguish between dealers and paperwork supplied with the car (the two major sources of information which elicited enough responses to allow further analyses); it is unlikely that each source was the only source of information.
- 5.55 The results show that there were no systematic differences in how well informed consumers felt based on their source of information. The distribution of responses to the question on how much they felt they knew about their car warranty was similar. However there is a small

difference in the proportion of people who said that they felt that there was no restriction on where they could get their car serviced under the terms of the warranty, with 49 per cent of those who received their information from the dealer saying that there was no restriction in comparison with 45 per cent of those who relied on paperwork.

- 5.56 The results also show that 51 per cent of the people who received their information from dealers thought that they could go only to the dealer that the car was purchased from, as compared to 55 per cent of those who relied on documentation supplied with the car. In addition, 62 per cent of the people who were informed by dealers thought that they could go to any franchised dealer, as compared to 68 per cent amongst people who relied on the documentation provided. The percentages of people who thought that they could go to any independent garage were the same amongst those who received information from dealers and those who received information from the documentation.
- 5.57 This suggests that dealers are successful in improving the awareness of consumers over those consumers who relied on documentation, but only marginally. The differences are also within the levels of error that we expect from this sample and therefore do not allow us to make a conclusive comment on the effect of dealer behaviour. Still, the levels of awareness remain low: over 50 per cent of consumers who were informed by dealers thought that they could take their car for servicing only to the dealer from whom the car was purchased and over 60 per cent of those informed by dealers thought that they could go to any franchised dealer for that make of car.
- 5.58 Looking at the actual decision of where to get the car serviced, we find that people who received information from dealers are no more likely to get their car serviced at a franchised dealer than people who received information from documentation (the percentages are 87 and 88 per cent respectively).

5.59 In summary, although the consumer survey shows an increase in consumer awareness of car warranty, it does not indicate that consumers are now well informed. The numbers of people who know that they can go to any independent garage under the terms of their car warranty are still low. This is also supported by information from interviews with stakeholders. For example, we were told that consumers are generally surprised to be told that they do not have to go to the franchised dealer.

The OFT publicity campaign

Awareness of the campaign

5.60 When asked explicitly about the OFT information leaflet 'Buying a new car? Check the warranty before you sign...' or the video news release, six per cent of respondents said that they had seen or heard advice from the OFT in one of these forms.³⁰ Of this six per cent, 40 per cent had seen the information leaflet in a magazine, 24 per cent had seen the video news release and 26 per cent had seen the leaflet via another source. Newspapers and word of mouth received nine per cent and five per cent of responses respectively.

5.61 At six per cent, exposure to the OFT information campaign is small. However, given that this was a one-off campaign, this is not surprising. Of further interest is how effective this information campaign was. There are two ways to assess this: first we asked directly how this influenced consumers' decisions, and second, we were able to compare the actual servicing decisions and views of those who were exposed to the campaign with those who were not.

³⁰ The 95 per cent confidence interval for exposure to the OFT campaign is from 4.46 per cent to 8.05 per cent (a standard error of 0.009).

5.62 However, caution is required in the interpretation of the results since sample sizes are small. A total of only 43 respondents had seen or heard the OFT advice. When we break this down into sub-samples, the numbers become even smaller and therefore carry a larger margin of error.

Effect of the campaign on awareness and choices

5.63 Of the respondents who had seen or heard the OFT advice, 53 per cent said that the advice affected their understanding of the terms of the car warranty with regard to where they could have their car serviced,³¹ 38 per cent did not feel that it had influenced their understanding and a further nine per cent did not know.

5.64 While those who responded that the OFT leaflet did not influence their understanding may well include those who already had the correct information to begin with, there is at least the possibility that the leaflet may not have been easy to understand or retain. Alternatively, it may have been difficult for consumers to reconcile the information given in the leaflet with the manufacturers' language in the wording of the warranty and therefore the leaflet may have created uncertainty about the actual terms and conditions.

5.65 Among respondents who had seen or heard the OFT advice, 49 per cent claimed that this did not change their inclination to take the car to a franchised dealer and a further 17 per cent said that this did not influence their decision to take the car to an independent garage. Together 66 per cent of people who were exposed to the campaign claim that it did not influence their decision.

³¹ The standard error for the estimate of people who saw the OFT campaign and said that it affected their understanding is 0.077. This leads to a 95 per cent confidence interval of between 37 per cent and 69 per cent. The confidence interval is wide because it is based on just 24 people who said that the OFT advice affected their understanding and 17 people who said that it didn't.

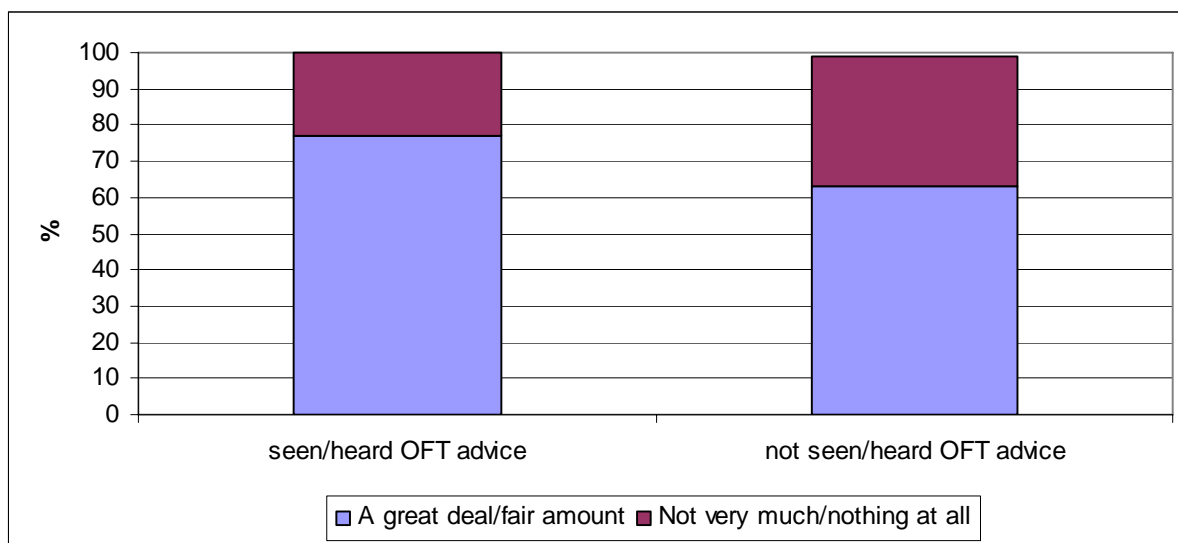
- 5.66 Of the respondents who were exposed to the OFT campaign, 30 per cent claimed that it influenced the servicing decision. This 30 per cent is composed of those who considered an independent garage but still chose a franchised dealer (17 per cent), and those who would have chosen a franchised dealer but, because of the OFT's campaign, chose an independent garage instead (13 per cent).³²
- 5.67 The responses to the question regarding understanding are as important as those regarding choices. Understanding is the first step to informed choice – regardless of what that choice is. It can be argued that the choice itself is not relevant as it is a matter of preferences, as long as consumers are well-informed. However, in this particular market, information may not be sufficient to influence choice for several reasons.
- 5.68 First, if consumer confidence in the servicing market is low, consumers are likely to be more risk averse. Therefore, although they understand that the warranty does not require them to service the car at a franchised dealer, they do not want to take the risk of reducing the car's resale value or invalidating the warranty by not being able to prove that the service was of the required standard.
- 5.69 Second, the information is not available at the point where the car is sold, when it is most likely to have an impact on consumers. If the information is received at a time when it will not be used, it is less likely to be absorbed and remembered since it may not have been relevant then. This makes it less likely that the information will be recalled at the required time.

³² It is useful again to consider these figures with the small sample sizes that they are based on: the 30 per cent quoted above comprises 14 people. Eight people said that it did make them **consider** an independent garage which they would not have done earlier, but still chose a franchised garage. Six people said that it made them choose an independent garage.

- 5.70 Third, as mentioned earlier, consumers are not informed explicitly that there has been a change of policy. This is particularly important since what we are examining here is the **absence** of a restriction rather than the **addition** of a new restriction. The absence of a restriction which has been in place in previous years could easily go unnoticed. Older consumers are at a higher risk of being affected by this since they are more likely to be used to the old rules. Younger consumers, who are perhaps entering the car servicing market for the first time, are less likely to be coming with any pre-existing perceptions about warranty restrictions.
- 5.71 This is supported by the survey data which shows that people aged 55+ are more likely to feel restricted than people in the 17-34 age group even though the older group claimed to know more about the terms and conditions of their warranty. Among those aged above 55, 76 per cent said that they knew a great deal or a fair amount about their warranty, as compared to the sample average of 64 per cent. Looking at actual knowledge however, the data reveal that this perception is not correct: 29 percent of the drivers aged 55+ felt that they could go only to the dealer where the car was bought from, compared with seven per cent of the drivers aged 17-34. Comparing proportions of consumers who thought that they could go to any franchised dealer but not to an independent garage, 72 per cent of 55+ year olds thought that they were restricted in this way, as compared to 47 per cent of 17-34 year olds.
- 5.72 To investigate how the OFT campaign influenced preferences and decisions, we now break these down by exposure to the OFT campaign.
- 5.73 People who had seen or heard the OFT advice were more likely to compare independent garages and franchised garages when deciding where to get the car serviced, with 19 per cent comparing prices as compared to 11 per cent price comparers amongst people who had not seen the OFT advice.

5.74 The responses for knowledge of car warranties can also be broken down by exposure to the OFT campaign. We look first at the self-assessment of knowledge of car warranties. Chart 5.17 below illustrates:

Chart 5.17: Exposure to the OFT campaign broken down by consumers' response to the question 'How much would you say you know about the terms and conditions of the warranty or warranties on your car?'



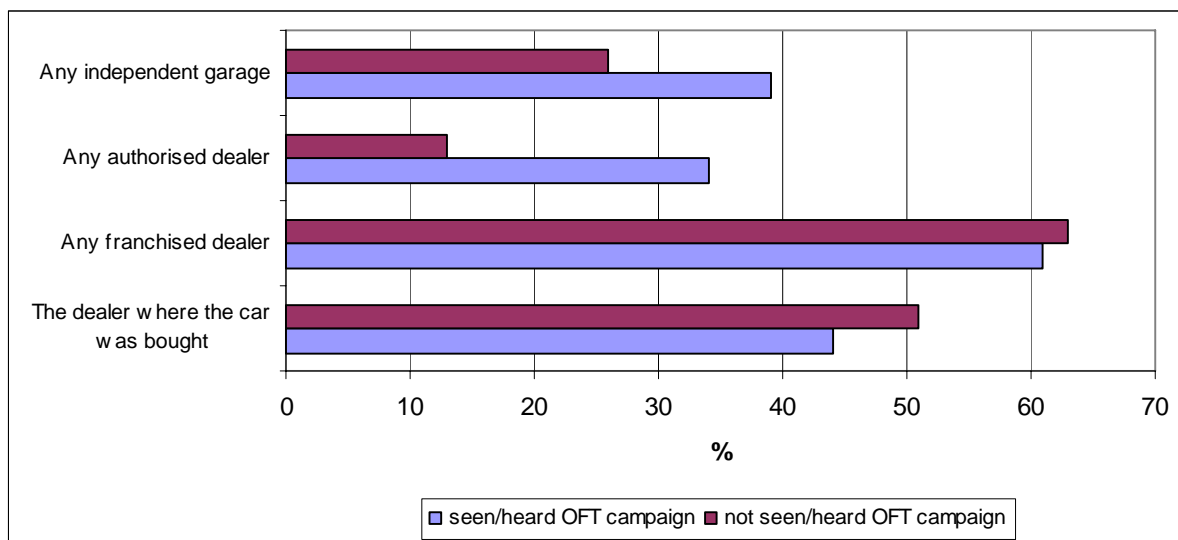
Source: Consumer survey data 2006.

5.75 Of those exposed to the campaign, 77 per cent thought that they knew a fair amount or a great deal about the terms and conditions of the warranty, as compared to 63 per cent of those who were not exposed to the campaign, which indicates that people who have seen or heard the advice are more likely to feel better informed.

5.76 Amongst those who believed correctly that their car could be serviced at any independent garage, 15 per cent had seen the OFT leaflet. At the other end of the spectrum, of the people who believed that the car had to be serviced at the franchised dealer, only five per cent had seen the OFT leaflet.

5.77 Another way to look at this is to compare where people believe they could have their car serviced, broken down by exposure to the OFT campaign. Chart 5.18 below illustrates:

Chart 5.18: Response to the question 'Where can you have your car serviced?'



Source: Consumer survey data 2006.

5.78 It appears that there is a strong positive relationship between knowledge of car warranty restrictions (varying from those who feel most restricted to those who feel least restricted) and exposure to the OFT campaign. Consumers who have seen or heard the OFT advice are much more likely to believe that they can have the car serviced at an independent or authorised dealer as compared to those who have not seen the advice. In contrast, consumers who have not seen the advice are more likely to believe that the car may be serviced only at franchised dealers or specifically the dealer where the car was bought, for the warranty to remain valid.

5.79 Because of potential sample bias, the positive correlation does not, however, necessarily imply that the OFT campaign caused the increase in knowledge. Those exposed to the leaflet were largely those who bought magazines (40 per cent of those who saw the information saw it

in a magazine), and these people could be more likely to be informed anyway or have servicing preferences that are systematically different from those of people who do not read magazines.

- 5.80 In order to investigate the direction of causation further, we break down the responses to the factors that were important to consumers in deciding to have the car serviced at an independent garage. The average score given to the response that the 'OFT leaflet informing that the warranty would not be affected' was 10.0 amongst people who had seen the advice, in comparison with 6.0 amongst those who had not seen the campaign. Clearly, the information provided by the advice became a highly significant factor in choosing an independent garage for those who saw the advice and decided to have their car serviced at an independent garage.
- 5.81 In addition, those exposed to the OFT campaign also placed a higher average score on the garage being authorised by the manufacturer and using manufacturer's guidelines (an average score of 7.8) as compared to those who had not seen the advice (a score of 6.2).
- 5.82 Another significant difference in preferences was that people who had seen the OFT advice placed an overall lower score on the 'better or same quality of service' at an independent garage (an average of 5.5) as compared to those who had not been exposed to the campaign (who placed an average score of 7.6 on quality).
- 5.83 The differences in preferences outlined above were observed among those choosing independent garages. This group does not include those who saw the advice but still chose to have the car serviced at a franchised dealer. Of these people over 90 per cent still gave a score of eight or more to maintaining the car's warranty as a reason for choosing a franchised dealer. Although this is based on a small sample this suggests that for over half of those exposed to the campaign, the advice did not clarify sufficiently, or did not provide the re-assurance that the removal of the contractual restriction would in fact be translated to a practical reality.

- 5.84 In summary, it appears that the OFT campaign influenced the understanding of roughly half of the people who were exposed to the campaign. Understanding and awareness is higher amongst those who saw or heard the OFT advice. However, even amongst those who saw/heard the advice, levels of understanding are low and more than half do not know that they can take their car to an independent garage.
- 5.85 The campaign also seems to have influenced the servicing decisions of some consumers by making them consider independent garages. However, the change is small with just 13 per cent of those exposed saying that the information made them chose an independent garage.

Other options for increasing awareness

- 5.86 The general view amongst stakeholders was that the OFT campaign was a good initiative, but it was too short-lived to have substantial impact.³³
- 5.87 Stakeholders suggested that the information should be targeted at individuals at the point when the car is sold, when they could take on board a general understanding about their future opportunities for servicing their car. Information provided at garages at the time of servicing is unlikely to be useful as consumers will already have made their decision on servicing outlet at that point, although additional information might impact future servicing decisions.
- 5.88 In addition, a common suggestion was that since this is a change in the market, it needs to be highlighted explicitly rather than be 'available on request' as consumers are likely to believe that by default, the old rules still apply.

³³ It should be noted though that some of the interviewees were not aware that the OFT had initiated an information campaign.

- 5.89 Stakeholders also indicated that it should not be expected that sales personnel would tell clients voluntarily that they could get their car serviced elsewhere since it is not in their commercial interest to do so. It was suggested that there could be additions to the SMMT code which require sales personnel to inform consumers explicitly that they are no longer tied to having their car serviced at a franchised dealer.
- 5.90 It was also suggested that an integrated information campaign be developed that uses several different channels to ensure that the message is conveyed effectively – for example, by distributing leaflets at petrol stations and adding information about servicing and consumer rights in the Highway Code. Other suggestions included teaming up with the DVLA to distribute leaflets regarding the rights of the consumer when they are sent reminders to renew tax or registration.
- 5.91 A potential weakness of the current approach was also identified in the use of car magazines as a means of distributing the information leaflet. This runs the risk that only the magazine-buying segment of the population would be informed, leaving other segments in the dark. It was suggested by a stakeholder that affluent segments of the population are more likely to buy magazines which might lead to discrimination on the basis of income.
- 5.92 Checking this with the survey data, we did not find significant differences in exposure between social grades or working status. We do, however, find that men are twice as likely as women to have seen or heard the OFT advice (eight per cent as compared to four per cent). In addition, 10 per cent of the consumers who are in the 55 + age category had seen the advice, as compared to five per cent of those under 55.

6 ASSESSMENT

Key findings on market developments and consumer awareness

Market changes

- 6.1 The market is evolving in response to the changes in both the supply and the demand sides of the market. Key factors include increased computerisation of car systems, increased servicing intervals, lower prices of new cars, the growth of fast-fits and changes due to the BER.
- 6.2 The BER has created new opportunities for independents to compete with franchised dealers in the car servicing market but other factors, such as increased computerisation and extended service intervals, may have proved to be a brake on the development of competition.

Car warranty restrictions

- 6.3 There is no longer a contractual restriction on car warranties that requires the car to be serviced at a franchised dealer in order for the warranty to remain valid. However, some manufacturers still encourage the use of franchised or authorised garages. In addition, dealers do not explicitly inform consumers that this restriction is no longer in place. The information is available only on request.

Prices

- 6.4 Franchised garages continue to be more expensive for servicing than independent garages. The data we have seen suggest a price differential of between 40 and 70 per cent. However, we do not have sufficient evidence to say if the price differential has changed since 2003.

Market shares

- 6.5 The market share of franchised dealers has declined marginally since 2003. However, the survey results show that franchised dealers still hold 86 per cent of the new car servicing market, in terms of number of

customers. Independent authorised garages have developed rapidly and now have a market share of eight per cent.

Consumer preferences

- 6.6 Maintaining the warranty on the car was the most important reason given by consumers for choosing a franchised garage. Even amongst people who had seen the OFT leaflet, the ranking given to the importance of keeping the car warranty valid was high.
- 6.7 Convenience of location or timing was the most important reason for consumers who chose an independent garage.
- 6.8 Both consumers who chose an independent garage and those who chose a franchised dealer gave 'quality' a high score, and quality related reasons were second on the list of important factors for both kinds of garages. However, 86 per cent of consumers chose franchised dealers as compared to the five per cent who chose independent non-authorised garages, which may indicate that a higher number of people perceive that franchised dealers offer better quality.

Consumer awareness

- 6.9 The percentage of consumers who think that there is a restriction in the warranty on where they can have their car serviced has decreased from 43 per cent to 38 per cent since 2003 – but this still represents nearly two in every five consumers. Of the consumers surveyed, 36 per cent claimed that they know nothing at all or not much about the terms and conditions of the car warranty.
- 6.10 14 per cent of consumers knew that they could have their car serviced at an independent garage under the terms of the warranty, an increase from nine per cent in 2003. Approximately 88 per cent of consumers do not compare independent garages and franchised dealers when deciding where to have their car serviced.

- 6.11 In total 70 per cent of the consumers who said that they thought that their warranty restricted where they could have their car serviced said that they would consider going to an independent garage if there was no restriction on their warranty.

The OFT campaign

- 6.12 Of the consumers surveyed, six per cent had seen or heard the OFT campaign. Just over half of those who had seen/heard the campaign said that it had affected their understanding of the terms and conditions of their car warranty, with just under one third saying that it made them consider independent garages. Of those who said that it made them consider an independent garage, more than half did not finally choose an independent garage.
- 6.13 The actual knowledge about where they could have their car serviced is better amongst people who had seen the OFT campaign, with 39 per cent knowing that they could go to any independent garage, in comparison with 26 per cent of those who had not seen it. Nevertheless, this indicates that more than six out of every 10 people who saw/heard the advice still did not know that they could take their car to an independent garage.
- 6.14 Over 90 per cent of those who were aware of the campaign and chose a franchised garage also indicated that maintaining the car warranty was an important reason for doing so.
- 6.15 However, consumers who had seen the OFT leaflet and chose an independent garage gave the OFT leaflet very high importance in influencing the decision to chose an independent garage.
- 6.16 From these findings it appears that the OFT campaign influenced the understanding of just over half the people who saw the campaign. 13 per cent of the people who saw the campaign said it made them choose an independent garage.

The effect of the OFT market study and subsequent initiatives

6.17 The 2003 study identified the servicing restrictions in car warranties as a feature which reduced competition, limited consumer choice and resulted in consumers paying higher prices. The market study was successful in highlighting these issues. This work and the follow on actions by the OFT had a positive impact on the market in that:

- certain warranty restrictions related to servicing were removed
- there was an improvement in consumer awareness and understanding, and
- there have been benefits to consumers due to the above developments.

6.18 This is a positive outcome from the OFT's work and we have made our own estimates of the original levels of consumer detriment and the scale of benefits which can be attributed to the OFT actions.

Consumer detriment

6.19 In the 2003 study the OFT estimated that the detriment to consumers from paying higher prices than in a competitive market could amount to £500 million per annum. This was an upper estimate based on taking a 40 per cent average price differential between franchised and independent dealers as consumer detriment.

6.20 The study made it clear that this was an upper limit to the extent of consumer detriment but in our view it is not realistic to attribute the whole of this price differential to the warranty restrictions or other failures in the operation of the market. Price differentials exist and persist over time for a variety of reasons and consumers may choose a higher priced product in full awareness of the alternatives and without suffering any detriment.

- 6.21 We recognise that this is a difficult area of economic analysis. In order to arrive at a more realistic estimate of consumer detriment we have made more detailed assumptions about how consumers and the industry might respond to changes – in this case the removal of the warranty restriction and the awareness campaign. Assumptions and methods of estimation are open to challenge and conclusions need to be subject to sensitivity testing but, in our view, this results in a more realistic estimate of the levels of detriment.
- 6.22 Our own estimates of consumer detriment arising from the warranty restriction use information and assumptions from the 2003 study. These are based on consideration of what might happen following the removal of the warranty restriction if consumers were fully aware of their freedom to choose a servicing outlet. Two key assumptions are the extent to which consumers would switch from franchised to independent service outlets and the price reduction that would result.
- 6.23 We have assumed that the market share of new car servicing for private customers held by independents would rise either to the level that they held in 2003 in the servicing of older cars or to a level midway between that level and their 2003 share of new car servicing. We assume that a third to a half of the fleet and business users who were subject to the warranty restriction would switch to independent suppliers. In the absence of any new pricing information we have assumed that where customers move to independents they would benefit from price reductions equivalent to the 40 per cent differential between franchised and independent outlets assumed in the 2003 study.³⁴

³⁴ We use the 40 per cent assumption as this is the assumption used in the OFT's calculations and we have no reason to believe that the price differential has changed. This 40 per cent is calculated by expressing the price difference between franchised dealers and independent garages as a fraction of the franchised dealer price. Earlier in this report, we have also used a figure of 70 per cent which is the same difference, but calculated as a fraction of the independent garage price.

- 6.24 Taking these assumptions and using the car servicing turnover identified in the 2003 study, we have estimated that the consumer detriment of the warranty restriction and associated lack of consumer awareness might have been in the region of £50 to £100 million per annum for private customers. We have also separately estimated the likely detriment to fleet and business car owners as being in the region of £50 to £75 million per annum. This gives an estimate of total consumer detriment prior to the 2003 study of between £100 and £180 million per annum. This is based on information available in 2003 and, in our view, is a more realistic estimate of the detriment that could have been attributed to the warranty restriction at the time.
- 6.25 Annex C sets out our approach to these estimates in more detail. It would be possible to extend this to explore a wider range of assumptions and alternative methods of estimation but we consider that our estimate provides a plausible starting point for considering consumer detriment in this case.

Consumer benefit

- 6.26 We have also considered ways of estimating the extent to which this consumer detriment might have been reduced as a result of the removal of the warranty restriction, the BER and the OFT campaign. In the absence of new data we have not been able to identify any change in price differentials since the 2003 study. We have, therefore, focused solely on the effects of the changes in consumer behaviour which may have resulted from the study assuming that price differentials remain at the 2003 levels.
- 6.27 On this basis we estimate that the benefit (reduction in detriment) to private customers has been of the order of £16 million per annum. The bulk of the benefit is attributable to the dropping of the warranty restriction and the BER. About £0.6 million may be attributable to increased awareness as a result of the OFT publicity campaign.

- 6.28 It is likely that a much larger benefit accrued to fleet and business car owners whose awareness of servicing opportunities is much greater. The dropping of the warranty restriction should have removed most or all of the detriment identified earlier giving a benefit in the range of £50 to £75 million.
- 6.29 It is difficult to separate out the impact of the BER from the effect of the OFT actions and to estimate how much of this consumer benefit can be attributed to the OFT's work. At one extreme it could be argued that the BER alone would have generated these benefits or, alternatively, that the BER would not have had an impact without the OFT's actions.
- 6.30 The main strength of the BER was in opening up opportunities for independent garages to gain authorised status and then to compete directly with franchised dealers for servicing work. Continuing the restriction on servicing to franchised dealers, to the exclusion of authorised garages during the full warranty period, was not tenable after the BER came into force.
- 6.31 The same cannot be said about a restriction which continued to exclude independent, non-authorised, garages from servicing during the warranty period. It was clearly the Commission's intention that such discrimination should not be allowed. However that is not a legally binding view. Lengthy action either by consumers or the competition authorities might have been necessary to bring about change.
- 6.32 In addition there were more general market developments taking place which would have influenced manufacturers' attitudes towards the warranty restrictions. At the time of the 2003 study the warranty restriction was only applied by about half of manufacturers selling in the UK. Warranty terms were one element in the competition between manufacturers and further relaxation in warranty terms might have occurred without further intervention.
- 6.33 It is not possible to make a precise judgement on the balance between what would have taken place as a result of the BER and other market developments and the additional contribution made by the OFT's actions.

We have taken the view that the requirements of the BER and other developments in the market would, in due course, have brought about the dropping of the warranty restrictions but that the OFT's initiatives are likely to have accelerated this process.

- 6.34 We cannot put a precise figure on this but we consider it reasonable, taking into consideration both the market pressures and the time that would have been required to mount any formal challenge, to assume a two year acceleration and on this basis we estimate the total present value of consumer benefits for private customers attributable to the OFT's actions to be in the region of £30 million. About £2 million of this may be attributable to the OFT awareness campaign. For fleet and business customers the estimated total present value of benefits is in the range £90 to £140 million. Taking both categories of consumer together, the total present value of the estimated consumer benefit is in the range £120 to £170 million.
- 6.35 In comparison, the cost to the OFT of carrying out the market study, follow up discussions with manufacturers and the information campaign is estimated to be in the region of £300,000. This is based on staff time (including an allowance for overheads) and external costs associated with the information campaign.
- 6.36 However these estimates suggest that there is still a significant element of consumer detriment, in the range of £40 to £90 million per annum, resulting from the continuing low level of awareness and lack of confidence about service options amongst this group of consumers.
- 6.37 It is possible that some of the impact of the OFT's actions will only materialise at a later date. Given factors such as annual servicing and 'free' first services some consumers will not yet have needed to take a decision on where to have their car serviced. The full impact on consumers may not yet be fully reflected in market behaviour. We have made some allowance for this in estimating the contribution of the awareness campaign to consumer benefit.

- 6.38 The survey results indicate that changes in consumer awareness and understanding have been relatively small, and levels of awareness remain low.
- 6.39 Several possible reasons for this can be identified both from the consumer survey and stakeholder interviews. However, on the basis of the data we have seen we are not able to isolate the effect of one cause from another. The discussion below flags up a range of possible reasons, rather than asserting that any one factor has driven the result.

Features of the car servicing market that obstruct free consumer choice

- 6.40 Franchised dealers continue to charge a premium over independent garages and we have not been able to identify any change in that differential since 2003. This price differential does not necessarily mean that there is market failure or an abuse of market power. Consumers may be willing to pay more for what they see as a better servicing experience, even if the servicing quality for the car might not be better. The servicing experience (which includes a pick-up service or a courtesy car, and reception facilities) comes at a higher cost to garages and is therefore passed on as higher prices.
- 6.41 On the demand side, consumers might be willing to pay more for service at a franchised dealer because:
- it provides a form of insurance in that they do not have to prove that the car was serviced correctly, and
 - they believe that the second hand value might be lower if the car is serviced at an independent dealer.
- 6.42 However it is also clear that many consumers are still not making well informed choices of this sort. The car servicing market is influenced by continuing consumer perceptions that the validity of the warranty will be, or may be, prejudiced if servicing is carried out at non-franchised dealers. Such perceptions remain widespread amongst consumers

despite the OFT initiatives. Although the warranty restrictions have been removed, some manufacturers continue to encourage consumers to have servicing carried out at franchised or authorised outlets. In this way, the extent to which the servicing market has been opened up to non-franchised outlets has been constrained.

6.43 It has certainly been beneficial to consumers that restrictions requiring servicing to be done at franchised outlets during the warranty period have been removed, but by itself this is not enough to bring about a major change in consumer behaviour. Consumer choice is influenced by a number of other factors:

- The car is a complex piece of machinery and consumers do not fully understand how it works. Consumers have limited information about the work being carried out and it is difficult for them to determine if the car has been serviced correctly.
- The amount of damage that can result from incorrect servicing is high, in terms of road safety, remedial work and potential reduction in resale value. This may make consumers risk-averse.
- The car servicing sector has attracted considerable media attention that has highlighted poor quality. This may further reduce consumer confidence.

6.44 Factors such as this reduce consumer confidence and make consumers risk averse in their choice of servicing outlet. Without more access to information or improved methods of assessing the quality of service work available at different types of outlet, it may be entirely rational for consumers to remain with franchised outlets despite the higher price levels.

Pre-existing consumer views and exposure to the OFT campaign

- 6.45 The restriction on servicing under warranty has been in place for a long time. Consumers who have been buying cars and servicing them under the old rules would probably assume, if only by default, that the rules have not changed and would need to be informed explicitly that they have.
- 6.46 Although the OFT did initiate such an information campaign, it reached only six per cent of the new car buyers. This may be consistent with the budget available for the campaign but in terms of impact on consumers affected, it cannot be said to have resulted in major improvements in awareness and understanding.
- 6.47 This is probably because the campaign was:
- a one-off campaign rather than one that extended over time
 - it used only two channels (leaflets in magazines and a video release) which may not reach all new car users, and
 - in addition, although the SMMT code now includes the correct description on choice of servicing outlet, there is no obligation on dealers to inform consumers explicitly of the change in rules.

The effectiveness of the campaign amongst those who had seen or heard it

- 6.48 Amongst the consumers who had seen or heard the OFT information campaign, about half did not change their views or decisions. The following reasons could possibly be behind this:
- The information was not given to consumers at the point of purchase of a new car. They might have seen it earlier in a magazine, at which point it might not have seemed necessary or relevant. It might therefore have been difficult to recall and apply later.

- The language in manufacturers' guidelines may lead consumers to believe that quality would be compromised at an independent garage, leading to the invalidation of the warranty. Since consumers appear to be to some extent risk averse and do not feel that they can control quality, their effective choice is reduced.

6.49 The combination of limited awareness and factors affecting consumer confidence contributes to the significant levels of consumer detriment which continue to exist even after the OFT's action. There remains scope for further action to improve consumer awareness and increasing confidence. This should result in a further reduction in consumer detriment.

Further market development

6.50 Both the BER and the OFT initiatives have had the impact of creating opportunities for independent garages to compete. However, in the last three years, three per cent of independent garages have been authorised and are now responsible for a market share of eight per cent of consumers, as indicated by the consumer survey.

6.51 Although opportunities exist for independent outlets to become technically able to service new cars, there are still some factors that act as barriers or deterrents:

- Some types of equipment are brand-specific and expensive, which means that garages need a certain minimum turnover of particular brands in order to make the investment profitable.
- Consumers are unable to ascertain servicing quality and use the brand name associated with franchised dealers as a proxy for quality.
- Consumers who have their car serviced at an independent garage have to demonstrate that the car has been serviced correctly in order to make a warranty claim. This consideration too may well make them more averse to using independent garages.

6.52 It is still too early to assess the final impact of these developments but additional competition at this level should bring further benefits to consumers.

7 LESSONS FOR FUTURE WORK

Lessons for market studies

7.1 It is difficult for us to generalise about the conduct of market studies on the basis of a single evaluation. However there are several aspects of the 2003 study on which it is worth commenting and from which lessons might be drawn for future market studies in this or other sectors. These are:

- the focus on warranty restrictions as a single issue
- the focus on the individual/domestic consumer
- limited attention to wider changes in the market which might affect the development of competition
- the scope of information campaigns, and
- the approach to assessing consumer detriment.

The focus on warranties

7.2 The study served an important purpose in highlighting the existence of the warranty restriction. Where this existed it was a genuine restriction on consumer choice and, as this report shows, even though the restrictions have now been removed past practice casts a long shadow over consumers' understanding of their rights. At the same time, even in 2003 over half of new cars sold were not subject to warranty restrictions on servicing and yet consumers were reluctant to move from franchised to independent service outlets. There were wider issues at play related to the quality of servicing which would have merited further attention in the market study.

- 7.3 Consumers find it difficult to assess and compare the quality of servicing being offered by different outlets. They risk incurring a significant loss if they mistakenly choose a low quality service outlet. In these circumstances franchised status is taken as a proxy for quality. In the absence of better information on quality this may be a perfectly rational decision for the consumer to take.
- 7.4 We are not suggesting that the OFT was or is unaware of this problem. The work they have undertaken on codes of practice in the servicing sector is directed at improving consumers' access to information and consumer confidence. Our point is more general: by focusing on one aspect of the market, albeit a very important issue, the study missed the opportunity to flag up the wider information and consumer confidence problems and thereby to give added impetus to the work on potential remedies.
- 7.5 In future market studies, even if there is one issue which is the trigger for the work, we suggest that the OFT should ensure that other significant factors affecting the operation of the market are given due attention. We recognise that the OFT has to balance the cost of additional research against the likely benefit from a wider review. We suggest that a range of key issues and their likely market impact should be identified early in market studies. This would provide a basis for assessing the level of resource to devote to each issue.

The focus on the individual/domestic consumer

- 7.6 The 2003 study is principally concerned with the impact of restriction on individuals' choices, with little attention paid to how changes might affect fleet operators and leasing companies even though these groups account for as much as half of new car sales. It is apparent from our discussions with stakeholders that these corporate groups do not suffer to the same extent from the quality issues facing individuals. They are well informed and in a position to negotiate with both franchised and independent outlets. It is this group which is likely to have been the biggest beneficiaries from the ending of the warranty service restrictions.

By focusing on individuals the OFT may have understated the impact of the changes it proposed.

- 7.7 In this case we are not suggesting that there has been any loss of consumer benefit as a result of the narrow focus, but as a general principle we suggest that market studies should take a wide rather than a narrow definition of the relevant group of consumers and should consider whether there are differential impacts of any changes as between consumer groups.

Wider changes in the market

- 7.8 Markets are rarely static and in car servicing there have been a number of recent developments which affect the development of competition. These include increased car reliability leading to longer service intervals and the increased computerisation of car systems and associated servicing. Both will have had some effect on the ability of independent garages to take advantage of the opportunities offered by the BER and to compete more effectively with the franchised outlets.
- 7.9 Some of these trends were apparent in 2003 and more attention might have been given to them in considering the impact of the BER and the likely development of competition.
- 7.10 We have suggested above that there should be a review of key issues early on in a market study. Existing developments which might impact on the market structure should be reviewed at this stage alongside other issues in order to assess whether further work on this aspect is justified.

The scope of awareness campaigns

- 7.11 The OFT's information campaign contributed to the consumer benefits that we have identified but it reached only a small proportion of the target audience of new car buyers and did not result in major improvements in awareness and understanding. Changing awareness is generally likely to be a difficult and slow process and it is not our

intention to criticise the OFT's actions in this case. However we have identified a number of factors which may have limited the effectiveness of this particular campaign. These include the one-off nature of the campaign, the use only of leaflets and video releases and the limited focus on reaching new car buyers at point of sale. We suggest that in considering the scope and resources for future information campaigns particular attention should be given both to the length of time required to achieve a significant impact and to the targeting of the campaign.

The approach to assessing consumer detriment

- 7.12 The 2003 study included an estimate of consumer detriment of £500 million per annum from limits on competition in car servicing. It was made clear that this was an upper limit but in our view it would have been preferable to adopt a lower figure.
- 7.13 The realistic valuation of consumer detriment is important both as a guide to the seriousness of the market problems identified and in deciding on the appropriate level of resources to put into remedies.
- 7.14 We are aware that there is considerable effort both in the OFT and at EU level currently directed at improving the definition and measurement of consumer detriment. It may well be that purely financial measurements (including our own estimates) do not capture the whole import of consumer detriment. We suggest that the OFT should draw on this wider work in developing best practice for future market studies.

Lessons for evaluations

- 7.15 The OFT has also asked us to draw their attention to any lessons we have learnt for future evaluations. We have two points under this heading.
- 7.16 First there is a question of timing. This study was commissioned less than three years after the 2003 study and an even shorter time after the follow-up action. That can be a short period for new patterns of behaviour to develop and for significant market changes to take place.

Public sources of data are normally only available after a gap of a year or two, which makes it difficult to use them towards the analysis.

Consumer behaviour may be subject to inertia which means that changes may not be apparent immediately. In markets characterised by major changes (such as dropping servicing ties and the BER in this case) it takes time for firms to adjust to new opportunities and constraints, and for the market to undergo structural change.

- 7.17 There is a cost to carrying out evaluation, particularly if, as in this case, it is necessary to carry out major research in order to obtain relevant data. At the time this study was commissioned, there was a reasonable expectation that change (or lack of change) related to the policy actions could be identified in order to justify this cost. We have indeed been able to draw conclusions but given factors such as annual servicing and 'free' first services some consumers will not yet have needed to take a decision on where to have their car serviced. The full impact on consumers may not yet be fully reflected in market behaviour.
- 7.18 We suggest that the likely time period over which actions following a market study will have an impact on the market should always be taken into account in deciding when to initiate an evaluation.
- 7.19 Second we believe there is some scope for providing a better base for evaluation of the original market studies. A particular issue in this study was difficulty in obtaining responses from stakeholders. If the intention to do a follow up evaluation is notified to stakeholders during the original market study and if details are retained by the OFT for future contacts this could make the evaluation easier.

ANNEXES

A LIST OF PARTICIPANTS

Consumer organisations

National Consumer Council

Trading Standards

Fleet Operator Associations

British Vehicle Rental and Leasing Association

Association of Car Fleet Operators

Industry and Motoring Organisations

AA Motoring Trust

Garage Equipment Association

Motor Vehicle Repairers Association

Retail Motor Industry Federation

Society of Motor Manufacturers & Traders

B CONSUMER SURVEY

- B.1 This consumer survey is conducted by MORI, which provides insight into:
- the new car market
 - current practices in the servicing of new cars
 - reasoning behind customers' choices on where to service these cars
 - knowledge and perceptions of the terms and conditions of warranties, and
 - sources of warranty information.
- B.2 The survey results are based on 704 interviews completed with adults aged 17+ who had acquired a brand new car in the last three years (either financed privately, by a company, or by the Motability or similar scheme). Interviews were conducted over the telephone between 14 and 26 February 2006.
- B.3 The sample was drawn from a commercial database of new car buyers. Quotas were set on type of car (from SMMT market share data), age, gender and social class. The basic criterion for inclusion was that respondents had to be responsible for the choice of where their car was serviced.
- B.4 Results are weighted by age group and by the proportion of cars up to one year old to ensure that the profile of respondents in 2006 is comparable to that of the 2003 survey.
- B.5 When interpreting overall results, it should be noted that a sample of 704 new car buyers or users, carries a confidence interval of up to + four percentage points (95 times in 100). The difference required for significance between two sub-groups will be greater than this, and the

actual difference will depend on the size of the sample and the finding itself.

- B.6 To follow is the questionnaire used, along with the top-line results provided by MORI. An additional column with comparable figures for the 2003 study is included where relevant.

Q.1: Firstly, can I check whether you have bought or been supplied with a new car for personal use within the past three years, bearing one of these registration letters...? If you have had more than one such car over the last three years, please give me your answer in relation to the one most recently bought / acquired.

USE DATES FOR REFERENCE IF NECESSARY

IF CAR HAS A PRIVATE / PERSONAL REGISTRATION PLATE, PLEASE CODE IT TO THE APPROPRIATE DATE (TO THE BEST OF THE RESPONDENT'S KNOWLEDGE) AND CONTINUE OR CLOSE AS USUAL

	2003 (%)	2006 (%)
'52' Registration (Sept 2002 – Feb 2003)	('X' Reg.) 25	13
'03' Registration (Mar 2003 – Aug 2003)	('Y' Reg.) 11	18
'53' Registration (Sept 2003 – Feb 2004)	('51' Reg.) 10	15
'04' Registration (Mar 2004 – Aug 2004)	('02' Reg.) 14	15
'54' Registration (Sept 2004 – Feb 2005)	('52' Reg.) 11	10
'05' Registration (March 2005 – Aug 2005)	('03' Reg.) 22	14
'55' Registration (Sept 2005 – Feb 2006)	('53' Reg.) 7	15
Registered before 52 Registration / Sept 2002	–	–
Don't Know/Not sure	–	–
Do not have a car	–	–

ASK Q2 OF ALL CODED 1-7 AT Q1. OTHERS CLOSE

Q.2: Are you the person responsible for arranging servicing for the car?

SINGLE CODE ONLY

	2006 (%)
No, I am not responsible	–
Yes, I am responsible	100

Q.3: Did you buy the car yourself, was it bought by or with somebody else in your family, or was it a company car?

SINGLE CODE ONLY

	2003 (%)	2006 (%)
Bought personally	68	72
Bought with / by somebody else	15	15
Company car	10	6
Motability Scheme	7	7

Q.4: What is the make of this car?

SINGLE CODE ONLY

	2003 (%)	2006 (%)
Alfa Romeo	*	*
Audi	1	2
BMW	4	2
Citroen	6	6
Daewoo	1	*
Daihatsu	*	*
Fiat	4	3
Ford	16	15
Hyundai	1	3
Honda	3	4
Isuzu	*	-
Jaguar	1	1
Chrysler / Jeep	1	1
Kia	1	2
Land Rover	1	1

Lexus	*	*
Mazda	1	1
Mercedes-Benz	2	1
Mitsubishi	1	*
Nissan	3	5
Peugeot	9	8
Renault	8	9
Rover / MG	4	4
Saab	1	*
SEAT	1	2
Skoda	1	2
Subaru	*	*
Suzuki	2	3
Toyota	5	4
Vauxhall	10	11
Volkswagen	5	7
Volvo	1	1
Other	2	*
Don't know	*	1

ASK ALL

Now I would like to ask a few questions about the servicing of this car...

Q.5: Firstly, how many times in total – if any - has the vehicle been serviced since you bought it?

	2003 %	2006 %
None – it had not been serviced	41	30
One	24	29
Two	16	24
Three	10	10
Four or more	9	7
Don't know	*	*

Q.6: When you were deciding where to have your car serviced, did you compare independent garages and franchised dealers?

All who have had their car serviced once or more (564)

	2006 (%)
Yes	12
No	88
Can't Remember	*

Q.7: What, if anything, was the price difference between the franchised dealer/s and the independent garage/?

All who compared different garages and franchise dealers (65)

	2006(%)
No difference	10
Franchised dealer was more expensive.....	
by up to 10%	10
by between 11-20%	13
by between 21-30%	13
by between 31-50%	13
by between 51-75%	5
by between 76-100%	5
by over 100% (i.e. more than twice as much)	5
Independent garage more expensive....	
By up to 10%	4

by between 11-20%	-
by between 21-30%	-
by between 31-50%	1
by between 51-75%	-
by between 76-100%	-
by over 100% (i.e. more than twice as much)	-
Don't Know / Can't Remember	21

Q.8: During the time you have owned / had use of it, at which of these places, if any, have you had your car serviced?

READ OUT A - C SINGLE CODE ONLY

All who have had their car serviced once or more (564)

	2003 (%)	2006 (%)
...A franchised* dealer for that make of car (either the dealer which supplied the car originally or another one)	91	86
... An independent non-franchised, but authorised garage	1*	8
...An independent non-franchised, non-authorised garage	7**	5
Don't Know / Can't Remember	n/a	1

* 'A franchised dealer for a different make of car 'in 2003

** 'An independent (non-franchise) garage' in 2003

Q.9: And approximately how much was the most recent service (not including any repair costs)? If you cannot quite remember or do not have an invoice readily at hand, please give me an approximate figure.

In giving me your answer, please exclude any costs for repairs to damage or replacement of parts not covered by the warranty (for example, bodywork, broken wing mirrors, scratches on paintwork, replacement brake pads, replacement exhaust etc).

	2003 (%)	2006 (%)
Nothing	15	30
Less than £50	2	2
£50 - £74.99	6	5
£75 - £99.99	8	7
£100 - £124.99	15	15
£125 - £149.99	9	8
£150 - £199.99	13	18
£200 - £249.99	9	12
£250 or more	10	9
Mean (excluding 'nothing')	£156	£162

Q.10: I would now like to ask about the various factors which were important to you in choosing to have your car serviced at a franchise dealer. How much importance did you place on.....as part of your overall decision? Please rate each on a scale from 0 to 10, where 0 indicates no importance at all, 5 indicates some importance, and 10 indicates very great importance...

READ OUT EACH, AND ALTERNATE ORDER. RECORD SCORE FOR EACH

All who have had their car serviced at a franchised dealer (490)

2006	Very great importance			Some importance					No importance			Mean
	10	9	8	7	6	5	4	3	2	1	0	
Lower price	20	4	8	7	5	19	3	4	4	3	23	5.53
Better quality	29	10	24	10	4	10	*	1	1	1	10	7.69
To maintain car's warranty	58	11	14	4	1	5	1	1	*	*	5	8.83
To maintain car's second hand value	26	9	17	9	6	15	1	1	1	1	13	7.12
Convenience of garage (location or timing)	25	8	19	10	6	13	3	2	4	1	9	7.02
Being sure that the service includes all the items specified by manufacturer	44	13	19	9	2	5	1	-	-	1	6	8.37

Q.11: I would now like to ask about the various factors which were important to you in choosing to get your car serviced at an independent garage. How much importance did you place on.....as part of your overall decision? Please rate each on a scale from 0 to 10, where 0 indicates no importance at all, 5 indicates some importance, and 10 indicates very great importance...

READ OUT EACH, AND ALTERNATE ORDER. RECORD SCORE FOR EACH

All who have had their car serviced at an independent dealer (70)

2006	Very great importance			Some importance					No importance			Mean
	10	9	8	7	6	5	4	3	2	1	0	
Lower price	31	7	17	17	4	11	-	1	4	-	8	7.31
Better quality/ no quality difference with franchised dealer	29	8	26	8	1	12	-	-	1	3	12	7.44
OFT leaflet informing that warranty would not be affected	30	5	12	6	-	5	5	3	-	-	35	6.26
Convenience of garage (location or timing)	40	21	17	4	1	7	1	-	1	4	4	8.07

Garage was authorised by manufacturer and carried out manufacturer's guidelines/ used manufacturer's parts

25 2 10 14 11 15 3 2 4 - 13 6.30

ASK ALL

Q.12: In general, how much would you say you know about the Terms & Conditions of the warranty or warranties on your car...? Would you say...?

	2003 (%)	2006 (%)
...A great deal	13	19
...A fair amount	40	45
...Not very much	36	28
...Nothing at all	11	8
Don't Know	1	1

Q.13: Where can / could you have your car serviced, under the terms of its warranty?

READ OUT A-D. ROTATE ORDER. MULTICODE OK

	2003 (%)	2006 (%)
...The dealer where the car was bought / ordered from	19*	51
...Any franchised dealer for that make of car	71	63
...Any independent garage	9	14
...Any authorised independent garage	n/a	27
Don't know	8	7

* 'Only at the dealer where the car was bought /ordered from' in 2003

Q.14: And did the warranty impose any restrictions on your choice of where you had your car serviced – if the warranty was to remain valid?

SINGLE CODE ONLY.

	2003 (%)	2006 (%)
Yes, I know/am sure it did	30	21
Yes, I believe/understand/assume it did	13	17
No	44	46
Don't Know	13	16

Q.15: Would you have considered / consider going to an independent garage if this meant there was no such restriction on your warranty?

All whose warranties restrict the choice of service location (262)

	2006 (%)
Yes – definitely	41
Yes – possibly	29
No – probably not	14
No – definitely not	14
Not sure / depends on other factors	2
Don't know	1

Q.16: From which source/s did you find out whatever you do know about this warranty?

DO NOT PROMPT Where else?

	2003 (%)	2006 (%)
The dealer who sold / supplied the car	50	60
Mechanics who service the car	2	2
Insurance company	*	-

Motoring organisation (AA / RAC / Green Flag etc)	1	*
Documentation / paperwork supplied with the car	37	32
Family / friends / work colleagues	6	4
Article/s in newspapers / magazines / web sites	5	2
Government (DTI / National Audit Office etc)	*	*
Office of Fair Trading	n/a	-
Trading Standards / Citizens' Advice Bureau / Local Council	*	-
Leaflet in a magazine	-	-
Own past experience	n/a	*
Customer helpline / booklet / manual	n/a	*
Motability	n/a	1
Work / used to work in motor industry	n/a	1
Internet	n/a	1
Other	1	2
Don't know / Can't remember	1	5

Q.17: Have you seen or heard advice from the OFT (Office of Fair Trading) clarifying new rules on car warranties e.g. information leaflet entitled 'Buying a new car? Check the warranty before you sign...' or a video news release.

	2006 (%)
Yes	6
No	94

Q.18: Where did you see / hear the advice?

DO NOT PROMPT. Where else?

All who have heard or seen OFT advice (44)

	2006 (%)
Information leaflet in magazine	40
Video news release	24
Information leaflet from other source	28
Newspaper	9
Word of mouth	5
Other	7
Don't know / can't remember	15

Q.19: Has the advice from the OFT affected your understanding of the terms of your car warranty in regards to where you could have your car serviced?

All who have heard or seen OFT advice (44)

	2006 (%)
Yes	53
No	38
Not sure	9

Q.19a: Before seeing the OFT advice, where did you believe you could have your car serviced under the terms of your car warranty?

READ OUT. ROTATE ORDER

All who understand the terms of their warranty differently after seeing OFT advice (24)

	2006 (%)
The dealer where the car was bought / ordered from	57
Any franchised dealer for that make of car	58
Any other garage	8
Any authorised but not franchised garage	10
Any other garage which meets the quality requirement of the manufacturer	11

Q.20: How, if at all, did this change your decision of where to have your car serviced?

READ OUT. ROTATE ORDER. Would you say...?

All who have heard or seen OFT advice (44)

	2006 (%)
Did not change my inclination of taking the car to a franchised dealer	49
Did not change my inclination of taking the car to an independent dealer	17
It made me consider an independent garage which I would not have done earlier (but still chose a franchised dealer)	17
It made me choose an independent garage	13
Don't know / Can't remember	5

Demographics

Q.21: Gender

	2003 (%)	2006 (%)
Male	53	57
Female	47	43

Q.22: Approximate annual mileage travelled

SINGLE CODE ONLY

	2003 (%)	2006 (%)
Under 3,000 miles	5	4
3,000-7,999 miles	28	29
8,000-12,999 miles	41	48
13,000-17,999 miles	11	10
18,000+ miles	14	8
Don't know	1	1

Q.23: Work status

	2003 (%)	2006 (%)
Working full time (30hrs/wk +)	59	55
Working part time (8–29 hrs/wk)	12	11
Not working (i.e. under 8 hrs) – housewife	3	5
Not working (i.e. under 8 hrs) – unemployed (registered)	2	1
Not working (i.e. under 8 hrs) – unemployed (not registered but looking for work)	1	*
Not working (i.e. under 8 hrs) – retired	19	22
Not working (i.e. under 8 hrs) – student	*	1
Not working (i.e. under 8 hrs) – other	3	5

Q.24: Social Grade

	2003 (%)	2006 (%)
A	5	6
B	31	23
C1	29	33
C2	20	21
D	7	8
E	6	9

Q.25: Region

	2003 (%)	2006 (%)
East Midlands	6	8
Eastern / East Anglia	8	6
London	5	5
Merseyside	2	1
North East	10	8
North West	10	13

Scotland	10	13
South East	15	15
South West	8	9
Wales	7	9
West Midlands	8	8
Yorkshire & Humberside	11	5

Q.26: Age

	2003 (%)	2006 (%)
17-34	23	23
35-54	47	47
55 +	30	30

C CONSUMER DETRIMENT

Consumer detriment calculated by the 2003 study

- C.1 The 2003 study calculated that the consumer detriment from restrictions on competition could amount to up to £500 million per year. This was described as potential savings forgone assuming that the competitive process would result in franchised dealers charging the same as independent garages. The study stressed that this was an upper limit estimate. In essence, all price differentials between franchised dealers and independent garages were regarded as potential consumer detriment. The estimate was 'based on £1.4 billion (value of new car servicing) multiplied by 40 per cent lower prices taken from DTI mystery shopping data, weighted for those who use franchised dealer servicing'.
- C.2 While this estimate may provide an upper boundary for any discussion of consumer detriment compared to a competitive market with a single price, it is not in our view realistic to attribute the whole of the observed price differential to the warranty restrictions or other failures in the operation of the market. Price differentials exist and can persist over a period of years for a variety of reasons.
- C.3 Product differentiation and price differentials are features of many competitive markets. Consumers may choose a higher priced product in full awareness of the alternatives and without suffering any detriment.
- C.4 An alternative approach would be to estimate the level of consumer detriment attributable to separate features of the market and in particular in the context of the 2003 study and subsequent actions to estimate the consumer detriment attributable to the car warranties restriction and consumers' misunderstanding of warranty terms ('warranty detriment').
- C.5 We recognise that this is a difficult area of economic analysis. To do this it is necessary to make more detailed assumptions about how consumers and the industry might respond to changes – in this case the removal of the warranty restriction and the awareness campaign. Such

assumptions and methods of estimation are open to challenge and conclusions need to be subject to sensitivity testing but, in our view, it is possible to arrive at more realistic estimates of the levels of detriment. Our own estimates using this approach are set out below. We base our estimation on information available at the time of the 2003 study and use the assumptions used in the 2003 study where no better alternatives are available.

Alternative approach

C.6 In order to arrive at a more realistic figure of 'warranty detriment' that could have been calculated based on the information available at the time of the 2003 study, we need to distinguish between different groups of consumers. There are three main types of purchasers of new cars in the UK: private consumers, fleet operators, and business buyers. During the period from 1999 to 2004, they accounted for 47 per cent, 43 per cent, and nine per cent of new car purchases in the UK respectively. Without any further data on the volume break down, we assume that these three groups of consumers account for the same percentages in the car servicing and repair market. Moreover, we treat business car buyers and fleet operators as a single group.

C.7 Further assumptions have to be made about the market share which independents would achieve in new car servicing if the market were more competitive in the absence of warranty restrictions and with full consumer awareness. We have considered two possibilities:

Assumption A

That independents' market share would rise to the level observed in 2003 in the market for servicing cars more than three years old, where the warranty restrictions were not relevant. That would result in a market share of about 50 per cent.³⁵

Assumption B

That the independents' market share would only rise half way to this level. That would result in a market share of 30 per cent.³⁶

C.8 The first of these possibilities assumes that owners of new and older cars would have similar preferences in choosing servicing outlet. The second assumption might be more appropriate if owners of new cars are more risk-averse than owners of older cars.

³⁵ According to the 2003 study, the total car servicing and repair market was worth around £10 billion a year, of which independent garages had 47 per cent market share. We are not able to derive the market share of independents when servicing the cars more than three years old based on the information provided by the 2003 study. However, it is likely that independents had a market share higher than 47 in this segment as their market share in servicing cars no more than three years old was way under 47 per cent. Therefore we use 50 per cent as an approximation in absence of more detailed information.

³⁶ The 2003 study suggested that independents accounted for about 10 per cent of servicing cars up to three years old.

$$10\% + (50\% - 10\%) / 2 = 30\%$$

C.9 The 'warranty detriment' of private consumers can be calculated on the basis that the market share of independents in servicing private new cars would have increased from 10 per cent to the level assumed, while the price differential between franchised and independent outlets remained constant at the 40 per cent level cited in the 2003 study. This is shown by Equation C.1 and the following table below.

'Warranty detriment' = Turnover of the market in question x share of private car owners x (assumed market share of independents – current market share of independents) x price differential (Eq C.1)

a. Turnover of the car servicing market	
b. Share of private car owners	a X b = private car servicing turnover
c. (New) assumed market share of independents – current market share of independents	a X b X c = reduction in turnover if market share for independents changes, but franchised dealer prices are charged
d. Price differential	a X b X c X d = reduction in turnover adjusted for lower prices charged by independents

C.10 This results in a 'warranty detriment' of £105 million per year for private consumers under assumption (A) and £53 million per year under assumption (B).³⁷

³⁷ £1.4bn X 47% X (50% - 10%) X 40% = £105.3m

- C.11 A separate estimate needs to be made for fleet operators and business buyers. According to British Vehicle Rental and Leasing Association (BVRLA), whose members collectively purchase 45 per cent of new cars sold in the UK, those of its members, which at the time of the 2003 study were restricted in choice of service outlet by warranty terms, are now well informed of the fact that there are no more car warranty restrictions and are free to choose the garages best suiting their interests.³⁸ They are also well informed of the servicing quality and have bargaining power to negotiate good deals with both franchised dealers and independent garages.
- C.12 Therefore we consider that, at the time of the 2003 study, fleet operators and business buyers suffered no 'warranty detriment' where they were not restricted by car warranties, and they suffered in the same way as private consumers where they were restricted. According to the 2003 study, around half of all new cars sold in the UK at that time had warranty restrictions, and we therefore assume that only half of fleet operators and business buyers suffered 'warranty detriment'.

$$£1.4\text{bn} \times 47\% \times (30\% - 10\%) \times 40\% = £52.6\text{m}$$

³⁸ This 45 per cent figure is higher than the fleet operators' 43 per cent share of new car purchases from 1999 to 2004. It remains unclear which year this 45 per cent figure refers to. Nevertheless we could conclude that the members of BVRLA cover the most of the fleet operators in the UK, and it's reasonable to assume that now all fleet operators in the UK are well informed and free to choose garages.

C.13 The calculation is shown in Equation C.2 and the following table below.

'Warranty detriment' = Turnover of the market in question x share of fleet operators and business buyers x proportion of fleet operators and business buyers that suffered detriment x (assumed market share of independents – current market share of independents) x price differential (Eq. C.2)

a. Turnover of the car servicing market	
b. Share of fleet operators and business buyers	$a \times b =$ fleet and business car servicing turnover
c. Proportion of fleet operators and business buyers suffering detriment	$a \times b \times c =$ turnover for that portion of the fleet and business car servicing market that suffers any detriment
d. (New) assumed market share of independents – current market share of independents	$a \times b \times c \times d =$ reduction in turnover if market share for independents changes, but franchised dealer prices are charged
e. Price differential	$a \times b \times c \times d \times e =$ reduction in turnover adjusted for lower prices charged by independents

- C.14 Note that the actual market share of independents is taken as zero since all the fleet operators and business buyers affected were bound by the warranty restriction to have their cars serviced at franchised dealers.
- C.15 However it remains unclear what proportion of servicing work commissioned by fleet operators actually went to independent garages or would do so if there were no warranty restrictions. Because fleet operators normally keep new cars for about three years before reselling them, their involvement in the car servicing market for cars more than three years old is limited. Therefore we consider it inappropriate to use the market share of independents in servicing cars more than three years old as the likely share of servicing work commissioned by fleet operators that goes to independents if there were no warranty restrictions. In the absence of further information, we have made two different assumptions for the market share of independent garages:

Assumption C

That independents' market share would be one third of the total market

Assumption D

That the independents' market share would be half of the total market

- C.16 We have also assumed that the price differential between franchised and independent garages is the same for fleet operators and business buyers as it is for private consumers. Fleet operators may be better placed to negotiate discounts on servicing charges, but this will apply to the charges at both franchised and independent outlets. We do not have any evidence that this reduces the price differential.

- C.17 This results in a range of 'warranty detriment' of from £49 million to £74 million per year for fleet operators and business buyers.³⁹
- C.18 On these assumptions the total consumer detriment attributable to the warranty restriction at the time of the 2003 study, based on information available at that time, was in the range £102 million to £179 million per year.⁴⁰
- C.19 Note that this is indicative only and might be an under- or overestimate of the full consumer detriment attributable to car warranties given uncertainties surrounding the assumptions about market shares and price differentials. In addition there may be consumer detriment related to other features of the market which are separate from the 'warranty detriment'.

Reductions in consumer detriment following the 2003 study

- C.20 Since the 2003 study, manufacturers have dropped the specific contractual restrictions which tied the warranty to servicing at franchised dealers, the BER has opened up new opportunities for independents, and consumers have become more aware of their freedom to have their cars serviced at places other than franchised dealers. These developments will have affected the 'warranty detriment' as calculated above. We have therefore estimated a range of possible reductions in consumer detriment and the proportion of such reductions that might be attributed to the OFT's actions, including the 2003 study.

³⁹ $£1.4\text{bn} \times 53\% \times (50\% - 0\%) \times 40\% \times 50\% = £74.2\text{m}$

$£1.4\text{bn} \times 53\% \times (33\% - 0\%) \times 40\% \times 50\% = £49.0\text{m}$

⁴⁰ $£53\text{m} + £49\text{m} = £102\text{m}$

$£105\text{m} + £74\text{m} = £179\text{m}$

C.21 First we calculate the reduction in 'warranty detriment' for private consumers. The consumer survey shows that the market share of independent garages (including authorised garages) has increased by six percentage points since 2003.⁴¹ This suggests that the market share of independents in servicing cars no more than three years old has increased from 10 per cent to 16 per cent.⁴² Applying Equation C.3 below, we calculate that the reduction of consumer detriment would be £15.8 million.⁴³

Reduction in 'warranty detriment' = Turnover of the market in question
x share of private car owners x (market share of independents in 2006 –
market share of independents in 2003) x price differential (Eq. C.3)

⁴¹ The 95 per cent confidence interval for the market share of independents in 2006 is 2.75 percentage points on either side of the average. Assuming the 2003 market share as fixed, this implies that the change from last year could actually be between 3.25 and 8.75 percentage points. We use the average of a six percentage point change and do not perform sensitivity checks in this document in order to keep the model tractable. However, the calculations can easily be adjusted for the lower and upper bound suggested by the 95 per cent confidence interval.

⁴² $10\% + 6\% = 16\%$

⁴³ $£1.4\text{bn} \times 47\% \times (16\% - 10\%) \times 40\% = £15.8\text{m}$

a. Turnover of the car servicing market

b. Share of private car owners $a \times b =$ private car servicing turnover

c. Market share of independents from 2006 survey – market share of independents from 2003 survey $a \times b \times c =$ reduction in turnover resulting from increased market share for independents, but assuming franchised dealer prices were charged

d. Price differential $a \times b \times c \times d =$ reduction in turnover adjusted for lower prices charged by independents = reduction in detriment

C.22 Now we turn to fleet operators and business buyers. As discussed above, fleet operators and business buyers are now well informed of the fact that there are no more car warranty restrictions and are free to choose the garages best suiting their interests. Thus we consider that they suffer no 'warranty detriment' at all at the moment. Therefore the reduction in 'warranty detriment' for fleet operators and business buyers is simply the previous detriment, namely between £49 million and £74 million per year.

C.23 Therefore the estimated total reduction in 'warranty detriment' since the 2003 study based on the assumptions we have set out may be between £65 million and £90 million per year.⁴⁴

⁴⁴ £16m + £49m = £65m

£16m + £74m = £90m

Reductions attributable to the OFT's actions

- C.24 These estimated reductions in 'warranty detriment' can be attributed to two factors:
- manufacturers have dropped servicing ties on car warranties following the OFT's actions and the BER, and
 - consumers are better informed of the actual terms of car warranties.
- C.25 Because the first factor is affected by both the OFT actions and the BER, it is difficult to tell what proportion of the impact should be attributed to the OFT. At one extreme it could be argued that the BER alone, which came into effect before the 2003 study was published, would have generated these benefits. However, a more realistic assumption might be that, in absence of the OFT's actions, the BER and other competitive forces would lead manufacturers to drop the servicing ties only with some delay, since it is possible that, in practice, servicing ties would only be fully removed after some lengthy formal proceedings. The OFT's actions may therefore have helped to bring forward the benefits of the removal of servicing ties.
- C.26 The main strength of the BER was in opening up opportunities for independent garages to gain authorised status and then to compete directly with franchised dealers for servicing work. Continuing the restriction on servicing to franchised dealers, to the exclusion of authorised garages during the full warranty period, was not tenable after the BER came into force.
- C.27 The same cannot be said about a restriction which continued to exclude independent, non-authorised, garages from servicing during the warranty period. It was clearly the Commissions' intention that such discrimination should not be allowed. However that is not a legally binding view. Lengthy action either by consumers or the competition authorities might have been necessary to bring about change.

- C.28 In addition there were more general market developments taking place which would have influenced manufacturers' attitudes towards the warranty restrictions. At the time of the 2003 study the warranty restriction was only applied by about half of manufacturers selling in the UK. Warranty terms were one element in the competition between manufacturers and further relaxation in warranty terms might have occurred without further intervention.
- C.29 It is not possible to make a precise judgement on the balance between what would have taken place as a result of the BER and other market developments and the additional contribution made by the OFT's actions. We have taken the view that the requirements of the BER and other developments in the market would, in due course, have brought about the dropping of the warranty restrictions but that the OFT's initiatives are likely to have accelerated this process.
- C.30 Therefore we consider it reasonable taking into consideration both the market pressures and the time that would have been required to mount any formal challenge, to assume that, for the first two years since the 2003 study, the benefits arising from the removal of the servicing ties should be fully attributable to the OFT's actions, while the OFT's actions would have no impact on the benefits arising from the removal of servicing ties after that two-year period. To calculate the present value of the benefits arising from this, we use a relatively conservative discount rate of 10 per cent.
- C.31 The assessment of consumer awareness is more straightforward. Stakeholders interviewed are aware of no major publicity campaign to raise private consumer understanding of the terms of car warranties other than the OFT campaign, while fleet operators and business buyers were not targeted by the OFT. We have therefore assumed that, all the increase in private consumer understanding of the terms of car warranties would be attributed to the OFT, but that the OFT campaign had no influence on the understanding of fleet operators and business buyers. However, it is unlikely that a one-off publicity campaign would

have effects lasting forever and consumers might be informed by other sources in the future, therefore we assume that the better understanding among private consumers would be attributable to the OFT for the first five years since the 2003 study, but none after that. We also use the same 10 per cent discount rate to calculate the present value as assumed above.

C.32 First we calculate the reduction of 'warranty detriment' of private consumers attributable to the OFT's actions. Of all private consumer surveyed, seven per cent were aware of the OFT's publicity campaign, and 15 per cent of these chose independent garages.⁴⁵ Of the remaining 93 per cent who were unaware of the OFT's campaign, only 12 per cent chose independent garages.⁴⁶ Therefore we assume that the difference of three per cent (15 per cent minus 12 per cent) was due to the increased understanding of private consumers, while the remaining increase of the market share of independents was due to the drop of servicing ties. Equations C.4 and C.5 and the following tables below explain the calculation.

Reduction in 'warranty detriment' attributable to increased understanding
= Turnover of the market in question x share of private car owners x share of consumers who saw or heard the OFT's campaign x difference in market share of independents between consumers exposed and those unexposed of the OFT's campaign x price differential (Eq. C.4)

⁴⁵ The 15 per cent figure for the proportion of people who were exposed to the OFT campaign and chose an independent garage is not precisely estimated. It is based on a sample of 33 individuals and the 90 per cent confidence interval ranges from 4.4 per cent to 26 per cent - an interval which allows us to say very little of statistical significance. We have still set out our estimates based on the 15 per cent as no better information is available. This can be updated and can serve as a basis for future calculations if more accurate data become available.

⁴⁶ This 12 per cent figure is estimated more precisely as it is based on a sample of 527 responses. The 90 per cent confidence interval lies between 10 per cent and 14.6 per cent.

- | | |
|--|---|
| a. Turnover of the car servicing market | |
| b. Share of private car owners | $a \times b =$ private car servicing turnover |
| c. Share of consumers who saw or heard the OFT campaign | $a \times b \times c =$ car servicing turnover for consumers who saw or heard the OFT campaign |
| d. Market share of independents amongst consumers exposed to the OFT campaign – market share of independents amongst consumers not exposed to the campaign | $a \times b \times c \times d =$ reduction in turnover resulting from higher market share for independents, but assuming franchised dealer prices were charged |
| e. Price differential | $a \times b \times c \times d \times e =$ reduction in turnover adjusted for lower prices charged by independents = reduction in detriment attributable to OFT campaign |

Reduction in 'warranty detriment' attributable to drop of servicing ties =
Reduction in 'warranty detriment' – reduction in 'warranty detriment' attributable to increased understanding (Eq. C.5)

C.33 Therefore the reductions in 'warranty detriment' of private consumers attributable to the increased understanding and the drop of servicing ties are £0.6 million and £15.2 million per annum, respectively.⁴⁷ Then the reduction attributable to the OFT, namely £15.8 million per year for the first two years and £0.6 million for the next three years, is shown in

⁴⁷ $£1.4bn \times 47\% \times 3\% \times 40\% \times 7\% = £0.6m$

$$£15.8m - £0.6m = £15.2m$$

Table C.19 below. The total present value of the reduction in 'warranty detriment' is also calculated.⁴⁸

⁴⁸ $\text{£}0.6\text{m} * (1 + 0.9 + 0.9 * 0.9 + 0.9 * 0.9 * 0.9 + 0.9 * 0.9 * 0.9 * 0.9) = \text{£}2.3\text{m}$

$\text{£}15.2\text{m} * (1 + 0.9) = \text{£}23.0\text{m}$

Table C.19: Reduction in 'warranty detriment' of private consumers attributable to the OFT (£m)

	Year 1-2 (per year)	Year 3-5 (per year)	Total present value
Attributable to increased understanding	0.6	0.6	2.3
Attributable to drop of servicing ties	15.2	0.0	29.0
Total	-	-	31.3
Remaining detriment per year*	89.5	89.5	-
Remaining detriment per year**	36.8	36.8	-

Source: Europe Economics' calculation.

*: under assumption (A)

** : under assumption (B)

C.34 Now we turn to fleet operators and business buyers. In absence of any price or market share information, we have assumed that all the reductions in 'warranty detriment' of fleet operators and business buyers can be attributed to the drop of servicing ties. Therefore the reduction attributable to the OFT, in the range of £49 and £74 million per year for the first five years since the 2003 study, is shown in Table C.20 below. The total present value of the reduction in 'warranty detriment' is also calculated.⁴⁹

⁴⁹ £74.2m*(1+0.9) = £141.0m

£49.0m*(1+0.9) = £93.0m

Table C.20: Reduction in 'warranty detriment' of fleet operators and business buyers attributable to the OFT (£m)

	Year 1-2 (per year)	Year 3-5 (per year)	Total present value
Attributable to increased understanding	0.0	0.0	0.0
Attributable to drop of servicing ties (Assumption C)	74.2	0.0	141.0
Attributable to drop of servicing ties (Assumption D)	49.0	0.0	93.0
Total (Assumption C)	-	-	141.0
Total (Assumption D)	-	-	93.0
Remaining detriment per year	0.0	0.0	-

Source: Europe Economics' calculation.

C.35 Table C.21 below summarises the total reductions in 'warranty detriment' attributable to the OFT.

Table C.21: Total reduction in 'warranty detriment' attributable to the OFT (£m)

	Year 1-2 (per year)	Year 3-5 (per year)	Total (present value)
Reductions in detriment of private consumers	15.8	0.6	31.3
Reductions in detriment of fleet operators and business buyers (Assumption C)	74.2	0.0	141.0
Reductions in detriment of fleet operators and business buyers (Assumption D)	49.0	0.0	93.0
Total (Assumption C)	-	-	171.3
Total (Assumption D)	-	-	124.3
Remaining detriment (Assumption A)	89.5	89.5	-
Remaining detriment (Assumption B)	36.8	36.8	-

Source: Europe Economics' calculation.

C.36 This reduction in detriment is solely based on more consumers choosing to use independent garages. To the extent that changes have also increased competitive pressure in the market to reduce the prices in either franchised or independent garages, this may have been further benefits to consumers. However, evidence on pricing is unavailable.

C.37 These tables also show values for the level of detriment which consumers continue to face even after the impact of the OFT's actions. These are based on our estimates of the initial level of detriment, set out in C.10 above, less the estimated annual benefit set out in C.28. This can be attributed to continuing low levels of awareness about service options amongst private customers.

D GLOSSARY

- D.1 This section reproduces the glossary used in the 2003 study.
- D.2 **Authorised repairers:** A repair shop within a manufacturer's network. Under the new BER any repair shop (including independent garage or franchised dealer of another network) that meets the quality standards set by a manufacturer can become authorised repairers within that manufacturer's network, without being obliged to sell new cars.
- D.3 **Cars Block Exemption Regulation (BER):** Commission regulation (EC) number 1400/2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle sector. The European Commission's new rules exempting agreements for vehicle sales and servicing.
- D.4 **Dealer-based extended warranty:** Extensions offered to the manufacturer's warranty at no extra charge. Terms and conditions may be different to the manufacturer's warranty, where these restrict servicing to the manufacturer's franchised dealer for the extension to remain valid this is often applied to the whole warranty period (manufacturer's and dealer-based extension). Typically they apply only within the UK.
- D.5 **Franchised dealer:** A business in the manufacturer's network that through a franchise agreement is allowed to sell that particular brand of car. Historically franchised dealers could both sell new cars and provide aftersales repair and servicing. The new BER separates these functions and sets up a separate category of authorised repairer (see above). We use the term franchised dealer in this report to cover all those garages in a manufacturer's network that are authorised to service cars. This term is a more familiar one than authorised repairer, nearly all franchised dealers still service cars and at the time of this report only a few independent garages had achieved authorised repairer status.

- D.6 Independent garage: For the purposes of this report, any garage that is not a franchised dealer for the make of car to be serviced.
- D.7 Manufacturer's basic warranty: The warranty provided by the manufacturer with a new car. Typically they cover component failure for one to three years. Terms and conditions vary between manufacturers.
- D.8 New car: For the purposes of this report, a car up to three years old where the warranty (whether manufacturer or dealer-based extension) offered at no extra charge at the point of sale is still valid. Cars that may have had more than one owner are included.