

Part IV: Market Outcomes

IV.1 Introduction

Part II (Industry Dynamics) made it possible to construct the analytical context and to evaluate the current situation. Part III (Legislative Options) identified the type of impact on the industry of certain aspects of regulation (scenarios and variables) taken in isolation.

The Terms of Reference laid down by the Commission require analysis of the impact of **the combinations** of the scenarios and the variables.

Continuing with a systematic approach (analysing each combination of the various scenarios and legislative options identified for the variables) would not be ideal for the following reasons:

- The excessive number of combinations would not allow an in-depth impact analysis;
- Some of the various combinations would have the same type of market outcome in the long term.

Therefore, the objective of Part IV is to provide the Commission with an overview of the **main long-term market outcomes resulting from a change in the regulatory framework**.

To do this, it is best to start with a system-based analysis of the potential developments in the four industry loops (product loop – R1; customer loop – B2; reliability loop – B3; price loop – B4). **Combining the individual effects of the legislative levers already studied allows the identification of the different states of each loop.** Thanks to the interdependent nature of the loops, it is possible to **focus on a restricted number of long-term outcomes** that provide a comprehensive view of the possible future of the industry as a whole.

For each of the four loops taken separately, Section IV.2 identifies the possible long-term developments. The following steps were taken:

- There was a review of the areas for improvement and of the risk factors revealed from the analysis of the current situation;
- From the results of Part II, legislative levers (variables or scenarios) capable of satisfying the areas for improvement and changing the activation of the loop were identified;
- The main short and long-term impacts and assessment of their probability and size were described;
- The possible developments in the loop, i.e. the conceivable long-term changes in its speed were summarised;
- The opportunities and threats associated with each of the long-term situations were assessed.

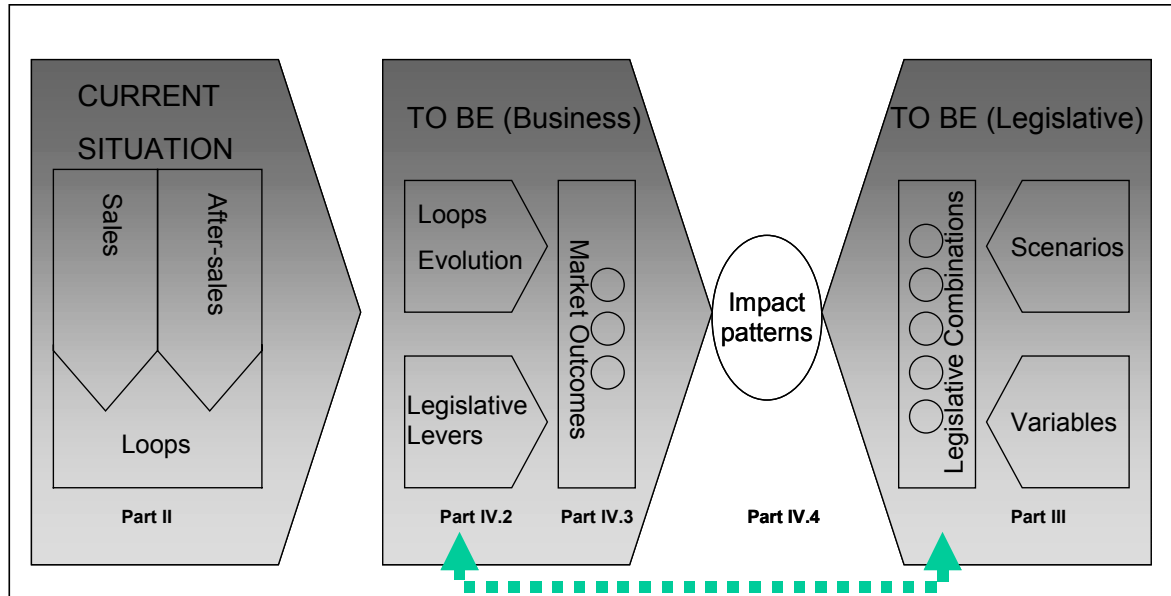
Section IV.3. assesses the **possible long-term situations of the system as a whole** (market outcomes). This section aims to provide the reader with the following:

- An understanding of the inter-relationships between loops and comprehensive identification of the possible outcomes towards which the industry as a whole may move;
- An evaluation of each possible outcome in terms of the impact defined by the Terms of Reference (three families of impact criteria).

From the four loops that make up the framework for the entire study, the conclusion brings the following together:

- The main legislative combinations from Part III;
- The market outcomes.

The diagram below depicts the analytical structure:

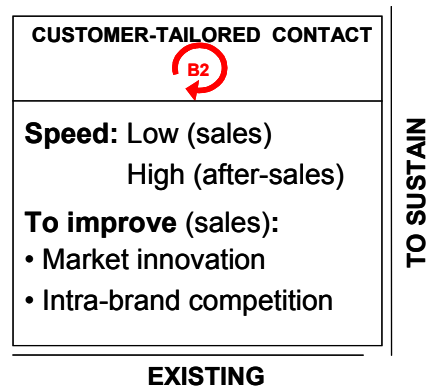


- Diagram IV.1. -

IV.2 Activation Levels of the Loops

IV.2.1. Customer loop (B2)

IV.2.1.A. Summary of the legislative levers

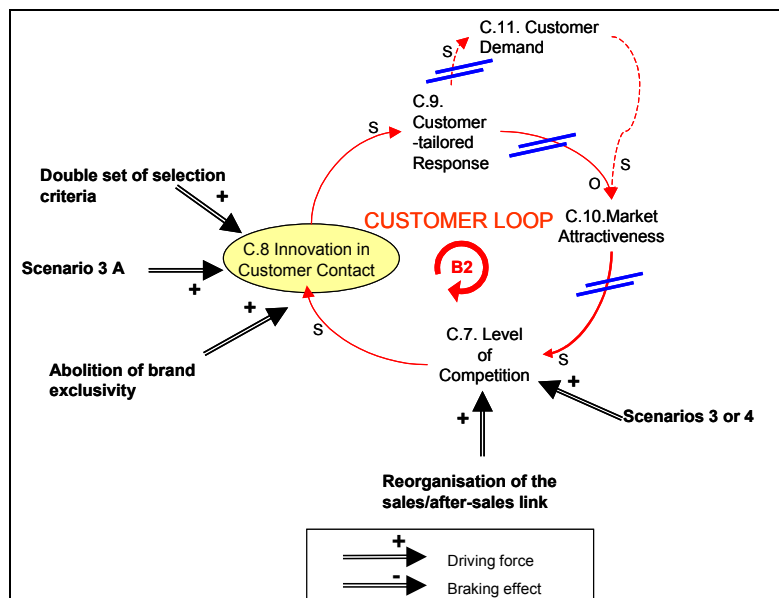


- Diagram IV.2. -

Improving the access to the sales market for new players and encouraging alternative forms of distribution are the main areas for improvement that have been identified as factors that would increase the speed of the customer loop (B2).

An analysis of the scenarios and variables shows that the following items can act as legislative levers and can contribute to these objectives, either separately or in combination:

- Scenarios 3 and 4;
- A reorganisation or a breaking of the link between sales and after-sales service;
- Limiting the opportunity for manufacturers to impose brand exclusivity;
- Limiting selection criteria (Scenario 3A);
- Setting up several sets of criteria.



- Diagram IV.3. -

IV.2.1.B Resulting impact and reactions of players

An initial examination suggests that lifting regulatory barriers would allow new entrants to penetrate the market. Lifting regulatory barriers would also provide a basis to improve the response to customer expectations. However, various questions arise:

- To which players with what business models would the car distribution market be attractive?
- What would customer demand be for these alternative distribution channels? Should an overall growth in demand or an increase in a particular segment be anticipated, or would it be a matter of capturing part of the current market?
- What would the reaction of the traditional players (manufacturers and networks) be to competition from these new players?

Before describing the resulting impact, it is necessary to summarise the estimates made of potential new entrants to the distribution business. Below are the various potential business models considered in the context of the analysis:

- Direct sales by car manufacturers (essentially to fleet buyers);
- 'Mass-sales' business models¹⁷¹, in which multi-brand players specialise in distribution and high volume models in particular;
- Integrated multi-brand sales and after-sales service groups;
- Internet-based players;
- Fleet players;
- Other business models, such as financial institutions, in which the sale of a new vehicle would be used to attract customers.

¹⁷¹ Traditional supermarkets and car supermarkets fall within this category.

The table below analyses the impact and the market penetration of such business models:

	Impact on cost structure ¹⁷²	Impact on other aspects of customer satisfaction	Estimate of maximum potential market share ¹⁷³
1. Direct sales and other channels run by manufacturers	LIMITED to MAJOR In the current system, cost savings are limited to some savings in sales force. However, in the future, manufacturers will be as capable of developing lean-cost-structure models as 'mass-sales' players.	FAVOURABLE Better overall response to the needs of some international and large-scale customers (basically fleets). Furthermore, direct sales rely on the official networks for servicing, buying vehicles back.	Up to 30% ¹⁷⁴ when using direct sales as a defensive strategy towards new entrants.
2. 'Mass-sales' type multi-brand distributors	MAJOR Cost structure could be reduced by up to 10% This impact can only involve 'mass-sales' models (large volume of standard models). This type of selling might reintroduce stock costs that would otherwise progressively disappear thanks to the implementation of lean distribution.	UNFAVOURABLE Restricted product knowledge, standardised sales process, risk of less appropriate response in terms of delivery times, limited choice.	Up to 15% without affecting the overall pattern of demand. In this case, capture of market share would mainly be concentrated on segments M1/M2 ¹⁷⁵ , especially special editions, the end-of-line models ¹⁷⁶ and the best sellers ¹⁷⁷ . Up to 30% of sales volume in the event that industry developments tend to erode the current level of segmentation.
3. Multi-brand integrated sales/after-sales groups	MODERATE Because of their size and the synergies in terms of the cost brought about by multi-branding, these players would be capable of developing more competitive offers than traditional single-brand players.	NEUTRAL TO POSITIVE Due to positioning as a 'car specialist' in a limited number of complementary brands across the whole of the value chain.	Up to 50% ¹⁷⁸
4. Internet players	LIMITED Mainly involves intermediaries.	Provider of information.	MARGINAL More of a complement to another distribution channel.
5. Fleet companies	MAJOR Influence on the 'Total Cost of Ownership' through their negotiating power with all the players in the value chain.	MAJOR Offer the end-consumer an integrated solution incorporating various aspects of the cost of use.	Up to 50% of the final consumer market ¹⁷⁹
6. Other players who bundle services or focus on niche markets	NONE	FAVOURABLE Better response to the specific needs of certain segments.	2 to 5% (in niche segments).

- Table IV.1 .¹⁸⁰ -

¹⁷² Cf. Appendix 13 (Modelling Exercise 4 - Distribution Costs) for further details. The analysis shows the anticipated changes in the cost structure of a car for different types of player and scenario.

¹⁷³ Cf. Appendix 11 (Modelling Exercise 2 - Market Share) for further details.

¹⁷⁴ This estimate is based on the fleet segment growing to 50% of sales for which a 'direct sales' type response is conceivable.

¹⁷⁵ The M1/M2 segment represents 47% of the market, an average price of 15,800 Euros, average margins, and about 30 competing brands (source: Appendix 5 (Car Segmentation), table of segmentation data 2000).

¹⁷⁶ Assuming a model life of five years and that special editions and end-of-line models make up the last 18 months of this, 30% of vehicles in segments M1/M2 would be open to competition by these players.

¹⁷⁷ The ten most widely sold cars in Europe in 1999 made up around 30% of the market.

¹⁷⁸ Aggregate figure of penetration for dealers operating distinct facilities (i.e. multi-branding under current conditions) and real 'in showroom' multi-brand dealers in Europe is currently 24 % (source = Appendix 2 (Current Sales Players)).

¹⁷⁹ Source = Appendix 4 (Fleet Market) table 'Fleet sales share'.

¹⁸⁰ The whole of this table is supported by Appendix 11 (Modelling Exercise 2 - Market Share).

Based the analysis of the emerging business models the main impacts of opening up the distribution market would be:

Capture of market share in distribution by multi-brand players based on lean cost structures

Only new business models giving the consumer a price differential of at least 5%¹⁸¹ are likely to develop significantly. It is also important that this differential should be based on an actual slimming of the cost structure and not merely on greater power to negotiate margins with manufacturers.

Hence **two simultaneous trends** may be expected in multi-branding. The first reinforces the second:

- Arrival of '**mass-selling**' new entrants;
- In reaction, there would be an increase in the **proportion of conventional distributors** (integrated sales and after-sales players) **offering complementary brands** alongside their main brand.

No impact on overall demand

The impact of introducing new players to distribution should not result in an overall increase in demand. In fact:

- The European car market is close to saturation with 2.3 people per car and a forecast growth of 1% in 2004 compared with 2001¹⁸²;
- There is already effective **inter-brand competition** in the car sector. Manufacturers and their networks are already investing in innovation in customer contact in order to identify new needs and segments;
- The **development of the fleet**¹⁸³ is already a major channel and a new form of response to the final consumer with its own impact on overall demand.
- Competition from new entrants would not affect all segments but rather certain mass-market or specialised segments. Furthermore, the prospects for innovation are limited, whether one is looking for an impact on consumer prices or greater satisfaction in terms of the sales process itself¹⁸⁴.

In the event of a major price effect on particular mass-market segments, demand is expected to grow in these segments while demand in other segments would shrink¹⁸⁵.

¹⁸¹ Based on various interviews with industry players and consumers.

¹⁸² Source: Appendix 1 (Sales Market), section 'Other elements' and Appendix 10 (Modelling Exercise 1 - Dealers Profitability).

¹⁸³ The development of the fleet segment is tending to accelerate rapidly. These players have made it possible to stimulate the sale of new vehicles by changing the choice between second-hand and new vehicles for certain categories of consumer. Even if highly optimistic hypotheses on gains in distribution costs are adopted, the impact on prices liable to come about could influence the consumer's **choice of channel** (decide to buy a vehicle from a multi-brand distributor) but not the **decision to buy** a vehicle or the choice between a new or second hand one.

¹⁸⁴ The official networks have traditionally invested in important constituents of the sales process (test drive, showroom, part exchange, continuity of service, in-depth knowledge of the vehicle...). It is highly unlikely that new entrants will reproduce each of these aspects of the current sales process.

¹⁸⁵ See Appendix 11 (Modelling Exercise 2 - Market Share) for further details.

Capture of market share in distribution by players offering differentiated bundling of services	This impact is estimated to be 2-5% of the market at the most ¹⁸⁶ . In fact, the search for innovation in customer contact and bundling of services is more likely to come about in the form of partnerships with manufacturers and their networks through channel integration.
Increase in the average size of distribution players and weakening of the small ones	Competitive pressure on sales and the erosion of the monopoly over the entire range would bring about specialisation in sales and concentration of players ¹⁸⁷ .
Intensified marketing activities by all players	The greater part of marketing costs is currently borne by manufacturers and their importing subsidiaries. Where the market is being opened up to new players, it may be anticipated that all players would step up their marketing initiatives leading to inflation of this item within the overall cost structure ¹⁸⁸ .
Refocusing of brand networks on non-standard models and service	The sale of new vehicles (especially the most common models) currently involves the lowest contribution margins in the income structure of network players ¹⁸⁹ . Hence the latter might develop other means of capturing and retaining customers and consequently re-focus on activities with greater profit, such as after-sales activities..
Evolution and differentiation of manufacturers' distribution strategies	<p>Opening up distribution to new entrants would result in manufacturers being forced to diversify their distribution strategies. The chosen strategy would depend on the characteristics of the manufacturer such as:</p> <ul style="list-style-type: none"> - The level of brand recognition in the market; - The number of brands the manufacturer has; - The presence or absence of a well-established official network; - The market volume involved. <p>Greater diversity would therefore appear between those brands retaining a dense exclusive network, those emphasising direct sales channels and refocusing their network on service, and those choosing to base distribution on partnerships with multi-brand players¹⁹⁰.</p> <p>Against this background the following two factors are vital in order to allow manufacturers to manage their marketing and commercial policies:</p> <ul style="list-style-type: none"> - Keeping a degree of control over the type and volume of products and services allocated to the various distribution channels; - Keeping some room for manoeuvre in price setting and dealer remuneration, possibly by varying these factors depending on the channel.
Intensified internationalisation of players	The growing attraction of the fleet sector and the international nature of its needs are liable to stimulate the activity of distribution groups with an international dimension.

¹⁸⁶ Cf. Appendix 11 (Modelling Exercise 2 - Market Share) for more details.

¹⁸⁷ Cf. Appendix 10 (Modelling Exercise 1 - Dealers Profitability) for a sensitivity analysis on the profitability of a dealership in relation to its size.

¹⁸⁸ Cf. Appendix 13 (Modelling Exercise 4 - Distribution Costs).

¹⁸⁹ Cf. Appendix 10 (Modelling Exercise 1 - Dealers Profitability).

¹⁹⁰ Cf. Appendix 12 (Modelling Exercise 3 - Geographic Coverage) for the expected differences in strategy between high-volume brands (general brands), Asian brands, and speciality brands.

IV.2.1.C. Possible long-term developments

The analysis of the impact of the legislative levers shows short to medium-term activation of the customer loop i.e. an increase in intra-brand competition between different types of players and innovation in distribution channels.

However, the customer loop has a 'negative feedback', which means that, **in the long term, the impact would stabilise at a new equilibrium of market shares.**

The following three lines of development are conceivable in the long term:

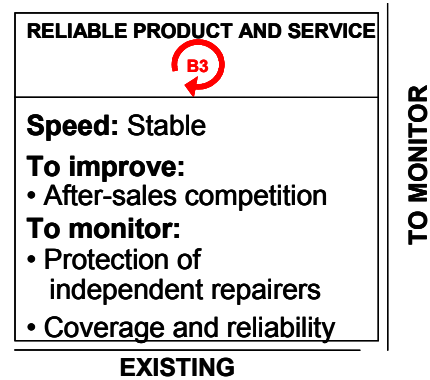
1. Domination of the sales market by new entrants (the speed of the loop becomes **very high**);
2. Moderate penetration of the sales market by new entrants (speed becomes **higher**);
3. Same characteristics as the current situation (speed remains **low** as at present).

	1. Domination of the sales market by new entrants	2. Moderate penetration of the sales market by new entrants	3. Same characteristics as the current situation
Speed of the loop	Very high	Higher	Same (low)
Legislative levers	The combination of Scenario 3A (allowing multi-branding and breaking the sales/after-sales link) would lead to this type of balance in the long term.	This would happen in the context of Scenario 3 or 4 reorganisation of the sales/after-sales link and the establishment of different sets of selection criteria. This assumes that manufacturers retain sufficient control over the method of dealer remuneration and the selection criteria laid down for the different types of channel.	Scenario 3 or 4 without reorganising the sales/after-sales link and without limiting the power of manufacturers to impose brand exclusivity would lead to this situation.
Consequence	Domination of distribution by multi-branding (new entrants and evolution of traditional players)	Equilibrium of market share between various distribution channels and increased customer segmentation Natural functioning of the customer loop (limitation of artificial entry barriers without paralysing manufacturers' means of controlling their strategy) would lead to a limited capture of market share by new players.	Domination of distribution by official networks and manufacturers' channels
Opportunity	Slight Domination by multi-brand channels would tend to standardise the sales process and would therefore meet the diversified demands of consumers less well.	Great Diversification of distribution channels would improve the response to varying consumer needs.	Moderate Because of the high level of inter-brand competition, manufacturers and their networks would tend to maintain strong innovation in customer contact.
Risk	High	Moderate	Low

- Table IV.2. -

IV.2.2 Reliability loop (B3)

IV.2.2.A Summary of the legislative levers



- Diagram IV.4. -

The main objective for improvement identified in relation to loop B3 (the reliability loop) is to **allow the after-sales market to operate more competitively**. In particular, this involves:

- Maintaining or improving access for independent after-sales players to more complex and specialised work;
- Liberalising certain markets (e.g. distribution of original spare parts) artificially held captive by the traditional networks.

Parallel to these areas for improvement the following two major risk factors arise:

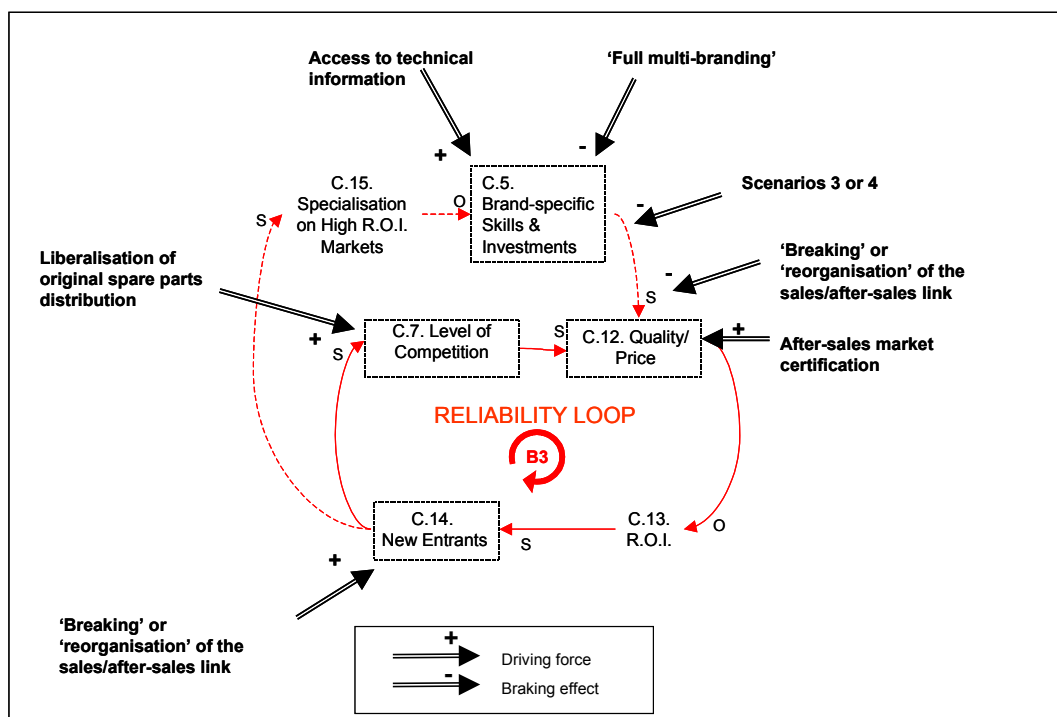
- A deterioration in the market position of independent repairers;
- A decrease in the coverage of service outlets and in the reliability of servicing.

Analysis of the scenarios and variables has shown the complexity of the legislative levers linked to this loop. Some legislative levers would have a de-stabilising impact on the loop by limiting brand-specific investment by the official networks and the homogeneity of coverage of service outlets. These are:

- Scenarios 3 and 4;
- Total lifting of restrictions on multi-branding by official repairers;
- 'Breaking' of the sales/after-sales link.

On the other hand some legislative levers, including the following, would stimulate competition:

- 'Breaking' or 'reorganisation' of the sales/after-sales link, which allows official repairers to appear;
- Regulation of distribution of original spare parts;
- Regulation of access to information, technical skills, and diagnostic tools;
- Regulation of skills certification of non-official after-sales players.



IV.2.2.B. Resulting impact and reactions of players

The impact of the various legislative levers is as follows:

Increase in the market share of independent after-sales players	Stimulation of competition in the after-sales market ¹⁹¹ would cause an increase in the market share of independent players and 'fast fit' repair chains compared to the official networks.
Weakening of the networks	<p>Stimulation of competition within the reliability loop would significantly reduce the profitability of the official networks ¹⁹² by:</p> <ul style="list-style-type: none"> - The reduction or loss of part of their income from the re-sale of original spare parts to independent repairers ¹⁹³; - The reduction in the market share of full facility outlets ¹⁹⁴ (sales and after-sales servicing) in service; - Falling margins on service work ¹⁹⁵.
Disruptions in the level of value for money	<p>The main risks to brand-specific repair work likely to arise from weakening the official networks would be:</p> <ul style="list-style-type: none"> - Varying quality of service between players, linked directly to the fact that manufacturers exercise selection only over official repairers; - Uneven value for money across regions (basically a problem in low-density areas ¹⁹⁶); - Increase in the price of complex and specialised repair work; - Difficulty for manufacturers to maintain adequate international coverage. <p>This impact would, however, be temporary since the deterioration in value for money would have a great impact on the level of consumer satisfaction ¹⁹⁷ and hence would cause manufacturers to change their strategies.</p>

¹⁹¹ Without the activation of this loop it must be noted that, in case of a level of activation of this loop that remains unchanged, the trend towards increased technical complexity would lead to a loss of impetus for small independents to the benefit of the official networks on the one hand (capable of doing any work) and new 'fast fit' type entrants on the other (more competitive in price terms), Cf. Appendix 12 (Modelling Exercise 3 - Geographic Coverage).

¹⁹² These different factors, taken separately or together, have been used as assumptions in the sensitivity analysis of the profitability of an average dealer (Appendix 10 (Modelling Exercise 1 – Dealers Profitability)). The results show that erosion of market share and margin on the sale of parts and on repairs has a significant overall effect on a dealer's overall profitability.

¹⁹³ The proportion of sales of original spare parts is an important factor in the profitability of current dealers (according to our estimates 10 to 12% of turnover for a contribution margin of over 40%). An assumed loss of 35% of the turnover from original spare parts is used in the sensitivity analysis of the profitability of a main dealer. This figure corresponds to an estimate of the proportion of parts currently sold to independent repairers. Nonetheless, given the logistical performance of manufacturers, many small garage owners would continue to get their supplies from dealers. In fact :

- The speed of availability of the part is often more important than its price;
- Dealers tend to allow independents discounts that would reduce the competitiveness of direct supplies of parts from the car or spare parts manufacturer.

This figure may therefore be regarded as a limit. On this hypothesis taken in isolation the model does, however, show a reduction in operating profit in the order of 60% compared with the current situation for an average main dealer.

¹⁹⁴ The greater reliability of vehicles less than four years old already corresponds to a fall in activity of around 5% quite independently of any competitive pressure. Cf. Appendix 12 (Modelling Exercise 3 - Geographic Coverage' for more details.

¹⁹⁵ Official repairers must already anticipate a fall in margins of 2 to 3% corresponding to the increased cost of more specialised labour and pressure by insurance and leasing companies on the costs of maintenance and repairs.

¹⁹⁶ Note that the issue of coverage is more acute in some European countries (for examples, Sweden, Finland Ireland) where the number of outlets per 1,000 km² is already very low. It varies from 5 (in Finland) to 160 (in Belgium+ Luxembourg) outlets depending on the country.

¹⁹⁷ Although more factors such as speed of service (at first) and price (afterwards) make up the key factors of customer satisfaction in the provision of services, quality and safety are the prime factors in dissatisfaction.

Increased specialisation of the service outlets of official networks

In reaction to competitive pressures, official repairers would step up the trend to seek gains in workshop productivity (use of tele-diagnostics, specialised workshops), in particular by structuring themselves on Hub and Spoke lines (specialised service outlets)¹⁹⁸.

Reinforcement of manufacturers' technical standardisation strategies

In order to be able to continue to provide a satisfactory level of service coverage, manufacturers could reinforce their strategies of technical standardisation of components thereby fundamentally influencing the level of skills and expertise required (cf. component C5).

The strategy could take various forms :

- For manufacturers with several brands and a large total market share this could mean a common rationalisation of their official repair networks. These groups could therefore set up their strategies of technical standardisation across all their brands while differentiating themselves from other manufacturers¹⁹⁹,
- For manufacturers with lower market entry this could mean pressures for technical standardisation and an increase in repairs performed by multi-brand repair players.

Reinforcement of specialised multi-branding trends

Activation of the reliability loop together with reinforcement of the technical standardisation strategies described above would facilitate the development of multi-branding specialisation in maintenance and repair work.

¹⁹⁸ Cf. Appendix 12 (Modelling Exercise 3 - Geographic Coverage) for more details.

¹⁹⁹ Note that various manufacturers have already developed this strategy.

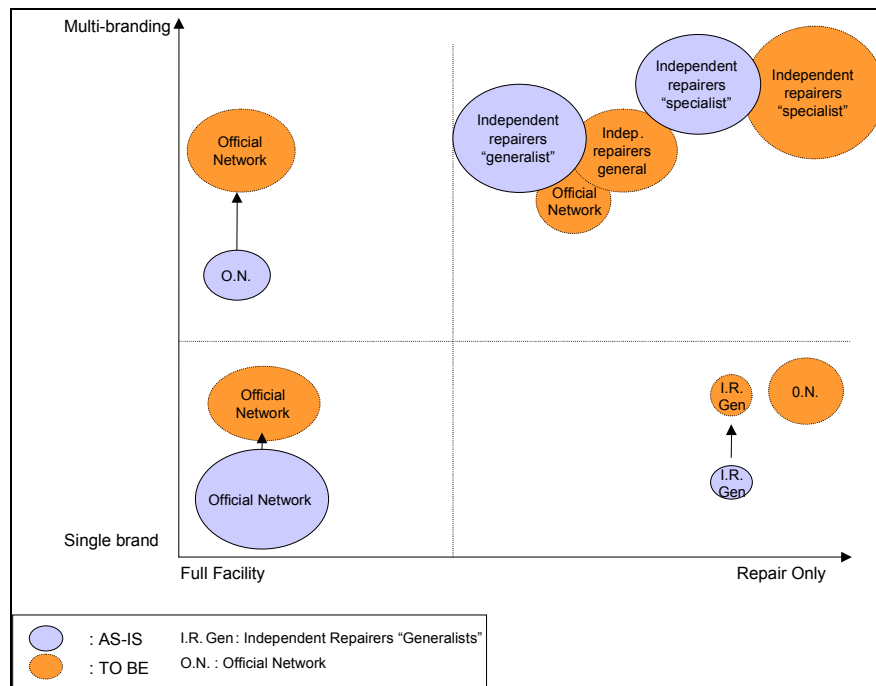
The diagram below summarises²⁰⁰ the anticipated evolution of different types of players in the after-sales service market. The two axes represent the following types of market positioning:

- Single or multi-brand;
- 'Full facility' (sales and service) or 'repair only'.

On the other hand, a distinction is made between official and independent players. Independent players are divided into generalists (all types of repair work) and specialists (specialising in some specific types of repair work).

When the different legislative levers are brought into play one may observe:

- A reduction in the proportion of players in the traditional official networks (full facility and single brand);
- Market entry by official multi-brand players (full facility and repair only players);
- A reduction in generalist independent players (ones carrying out all types of repair);
- An increase in the number of specialised independent players.



- Diagram IV.6. -

²⁰⁰ This diagram is based on estimates of the change in the number of outlets carried out in the appendices (Cf. Appendix 12 (Modelling Exercise 3 - Geographic Coverage). The size of the rings indicates the number of outlets for that category of player.

IV.2.2.C Possible long-term developments

An analysis of the impact of the various types of legislative levers **in the short term shows profound change in the structure of the after-sales market. It also reveals disruptions in the coverage of service outlets and the value for money of specialised services.**

Like the customer loop the reliability loop has a negative feedback, which means that, in the long term, the loop would re-stabilise around a new equilibrium of market shares for the various types of players.

The following two types of development can be envisaged in the long term:

1. Lowering of entry barriers to the after-sales servicing market (speed would **accelerate**);
2. Same characteristics as the current situation (speed would remain **stable**).

	1. Lowering of entry barriers to after-sales servicing market	2. Same characteristics as current situation
Speed of the loop	Higher	Same (Stable)
Legislative levers	The combination of different legislative levers would tend toward this outcome.	Legislative levers taken in isolation would cause the loop to remain in this state.
Consequence	Technical standardisation and specialisation in after-sales servicing with weakened brand-specific networks to the benefit of specialised multi-brand players.	Reinforcement of official networks (large market shares for repairers specialising in the brand) to the detriment of small independent players.
Opportunity	High This development would meet the objective of greater competition in the after-sales market and better protection for independent repairers.	Moderate This outcome would provide a guarantee of service coverage and quality but would not truly allow stimulation of competition.
Risk	High This outcome would generate considerable pressure on the profitability of 'full facility' brand networks.	Slight In this outcome the market position of traditional independent repairers (generalists) may deteriorate.

- Table IV.3. -

IV.2.3.B Resulting impact and reactions of players

The impact on the price loop of activating these legislative levers is:

Short term price competition (especially over the most popular models and highly populated areas)	An impact on prices is particularly likely in markets under strong attack from new entrants (see customer loop) aiming above all at high volume markets.
Accentuation of margin differentials between product/market segments	Despite the practice of establishing sales targets across the whole range, margins currently vary depending on the types of model (the most basic models have the lowest margins). The application of volume discounts to certain segments would tend to increase this differentiation.
Accelerated concentration of players	The bigger volume discounts would be, the more they would favour size and the creation of pan-European players. This would weaken the smallest players.
Appearance of low cost channels	If players developing leaner cost structures are favoured through a volume-based method of remuneration, this could lead to players positioned for high quality work (official networks) being driven out of the market and hence diminish the level of service and quality.
More developed segmentation and customer loyalty strategies	In reaction to price competition, players would reinforce value packages based on service, total cost of ownership and quality.

IV.2.3.C Possible long-term developments

Analysis of the impact of the legislative levers reveals **activation - sometimes considerable - of the price loop in the short to medium term. In extreme cases this may go as far as 'price wars', certain players being forced out of the market, and concentration.**

Nevertheless, like the two previous loops the price loop has a negative feedback. This means that in the long term the mechanisms of price competition would stabilise around an average level of profitability acceptable to players in the industry.

The two situations below may emerge in the long term:

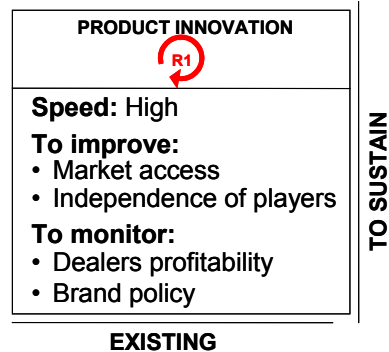
1. Change in the structure of the average cost of distribution (speed would **increase**);
2. Same characteristics as the current situation (speed would remain **stable**).

	1. Change in the structure of the average cost of distribution	2. Same characteristics as the current situation
Speed of the loop	Higher	Same (Stable)
Legislative levers	This situation could arise only through a combination of strong activation of the customer loop, the introduction of greater freedom for distributors to set prices, and making volume discounts commonplace.	This situation would only be preserved in the event of the method of dealer remuneration remaining freely determined by the manufacturer.
Consequence	Changes in the consumer demand profile (increase in the proportion of mass-market segments)	Price competition between distribution channels would be restricted to certain segments or temporary situations of price inequality.
Opportunity	Slight No impact on average prices.	Moderate Improved price transparency No impact on average prices.
Risk	High The price differentials between mass-market types of cars and more specialised segments are liable to increase to the detriment of the consumer. In this situation, there is the risk of an increase in consumer demand in the mass-market segments to the disadvantage of the more specialised ones. On the other hand, this situation would cause great concentration of players as well as standardisation and simplification of the sales process.	Slight The impact of price competition is likely to stabilise in the medium term.

- Table IV.4-

IV.2.4 Product loop (R1)

IV.2.4.A Summary of the legislative levers



- Diagram IV.9. -

The analysis of the current situation reveals the importance of the existing inter-relationships between the product loop and the other stabilising loops. It also highlights the positive contributions of the product loop and its central position in the current distribution and service system.

The areas for improvement depend on **limiting the negative impact of this loop**. They include:

- The natural barriers to entry that the brand-specific investments create for potential new entrants;
- The dependence of downstream players (at present, essentially official dealers) on manufacturers' marketing policies.

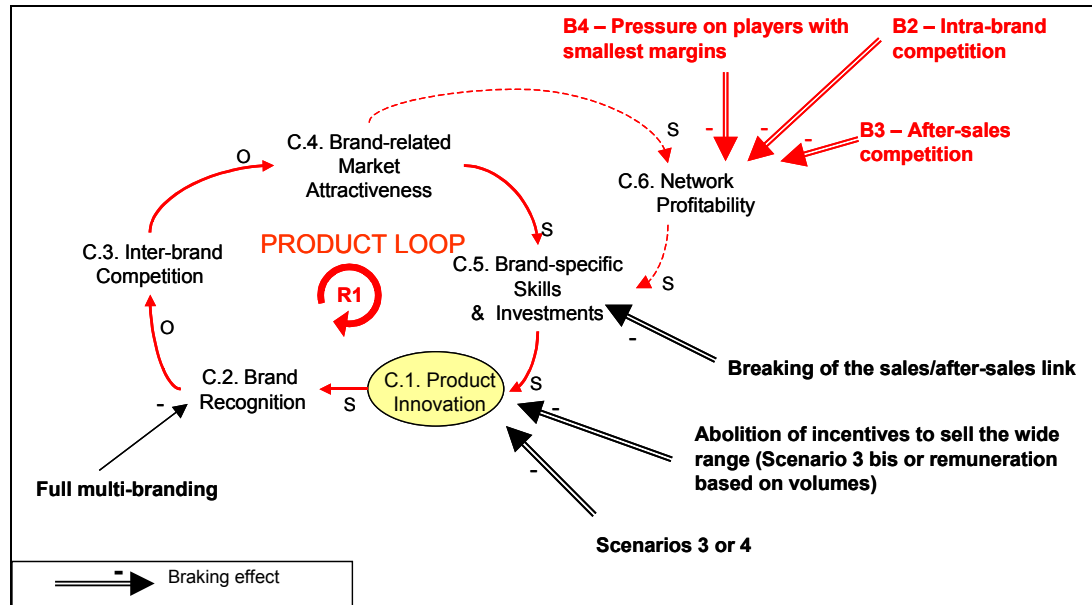
However, alongside these areas for improvement, the following two risk factors are revealed:

- The risk of weakening the profitability of official dealers;
- The risk of manufacturers losing control over their marketing policies (in terms of both image and control over sales volumes).

Four legislative levers with a direct braking effect on this loop would be:

- Scenarios 3 and 4 (abolition of territorial exclusivity);
- Abolition of restrictions on multi-branding (especially in distribution);
- Abolition of incentives to sell the entire range ;
- Breaking the link between sales and after-sales servicing activities.

Since the product loop is heavily influenced by the other three loops, activation of these three loops would put pressure on the profitability of the official networks.



- Diagram IV.10. -

IV.2.4.B Resulting impact and reactions of players

The impacts of the various legislative levers are:

Accentuation of the differential between strong and weak brands

Manufacturers incapable of making up for their partners' reduced investments would risk falling into a trend of diminished brand recognition and increased consumer price sensitivity to their product. This would force them to revert to product range reduction strategies.

Reinforcement of the independence of certain downstream players

It is, in reality, mainly big players and those from other sectors i.e. banking, financing or retailing sectors, who would move towards greater independence.

Since the current system had given small traditional car dealers protection against competitors, they would be apprehensive about this greater independence.

Defensive strategies by manufacturers such as investing in marketing, customer relationship management and service

In reaction to a weakening of the networks and the loss of control of distribution strategy, the trend would be the brand image to be increasingly managed by the manufacturers.

Increase in manufacturers' involvement in new downstream players.

There would be a need for manufacturers to finance a greater part of their marketing strategies, particularly by taking on increased responsibility for new forms of distribution.

IV.2.4.C Possible long-term developments

Analysis of the impact of the various legislative levers shows, above all, a short to medium-term **reduction in the profitability of the official networks** as well as differentiation of manufacturers' distribution strategies.

Analysis of possible developments in the product loop (R1) reveals that two situations may arise in the long term:

1. Increased independence of downstream players and weakening of the innovation loop for the weakest brands (speed of the loop becomes **lower**);
2. Same characteristics as the current situation (speed remains **high**).





	1. Increased independence of downstream players	2. Same characteristics as the current situation
Speed of the loop	Lower	Same (High)
Legislative levers	This situation is liable to arise if all the levers described are brought to bear. It is particularly likely to arise if the other three loops are strongly activated and the levers restricting promotion of the entire range are applied (Scenario 3A and/or volume discounts).	This would occur if manufacturers were to retain sufficient control of distribution methods (the legislative levers not brought to bear or only partially).
Consequence	Weakening of brand images and product innovation	Manufacturers and downstream players (dealers) have integrated marketing strategies.
Opportunity	Slight The only players liable to benefit from this increased independence would be big distribution players.	High Much innovation in brands' products and services.
Risk	High Accelerated inter-brand competition and forcing out of the weakest brands with a fall in product innovation are the greatest risks.	Slight The intensity of inter-brand competition guarantees the development of methods of managing networks.

- Table IV.5-

IV.3 Market Outcomes

IV.3.1. Identification of possible outcomes

Given the possible different speeds of each of the loops it is possible to identify the following market outcomes in the long term:

Loops	Speeds	Possible long-term developments	Status quo'	Multi-channel'	Mass-selling
PRODUCT LOOP 	Lower	Weakening of brands' image and product innovation			X
	Same	Marketing strategy integrated between manufacturers and downstream players (dealers)	X	X	
CUSTOMER LOOP 	Very high	Domination of distribution by multi-branding (new entrants and evolution of traditional players)			X
	Higher	Equilibrium of market shares of various distribution channels and increased customers segmentation		X	
	Same	Domination of distribution by official networks and manufacturers' channels	X		
RELIABILITY LOOP 	Higher	Standardisation and specialisation in after-sales service and weakening of brand-specific networks to the benefit of specialised multi-brand players		X or	X
	Same	Reinforcement of the official networks (strong market shares for repairers specialising in the brand) to the detriment of small independent players	X	X	
PRICE LOOP 	Higher	Change in the profile of consumer demand (increase in the proportion of sales falling within mass-market segments)			X
	Same	Competition on price limited to certain segments or temporary situations of price differences	X	X	

- Table IV.6. -

The system-based analysis and observation of inter-relationships between loops guarantee that all combinations are covered²⁰². In fact, the analysis shows:

- The opposition between the product loop (R1) and the other three. Hence a high degree of activation of a number of these loops (B2 and/or B3 and/or B4) drives the system towards a 'mass-selling' outcome;
- The impact of mutual reinforcement between the customer loop (B2) and the price loop (B4). Hence any major activation of one of the loops tends to induce a major activation of the other and to drive the whole system towards a 'mass-selling' outcome;

It must be noted that a period of instability is likely to occur in the short-term. This instability would be caused by the temporary slowing of the product loop (R1), a response to pressure on the profitability of official networks. This slowing would cause instability in coverage of service outlets (reliability loop - B3).

²⁰² Summarised in Table II.19 and diagram II.15 p.85 and p.86.

IV.3.2 Description of possible outcomes

IV.3.2.A 'Status quo'

In a 'status quo' market outcome the main developments may be described as follows:

- **No opening of the market to new entrants** with a profile different to that of existing dealers;
- **Continued trend toward networks reorganisation** characterised by the following factors:
 - A greater concentration of networks (reduction in the number of sub-dealers) so as to achieve a critical size and better return on investments;
 - The reinforcement of implementation of lean distribution and rationalisation of distribution costs that would partly result in improved dealer margins and partly in a fall in recommended prices;
 - Proactive, integrated customer relationship practices from manufacturers and their networks;
 - Internet development as a tool for communicating with end-customers, and as a transaction tool for some 'business to business' exchanges (for example, in spare parts distribution);
 - Development of more international operations in response to the needs of fleet companies;
 - Greater professionalism of workshops and greater competitiveness in repair work that is subject to competition from independent 'fast fit' repair chains;
 - Organisation of service networks (for example, specialised service outlets in the vicinity of a main dealer);
 - Extension of the warranty period;
 - Development of new associated products and services.
- Continued **downstream investment by manufacturers**²⁰³ and emergence of **partnership agreements** between manufacturers and/or their networks and players in other sectors;
- **Reduction in the number of generalist, multi-brand independent repairers.** These independents would evolve either into the role of official repairer of a brand or that of specialist. Some would be progressively driven out of the market by the increasing complexity of vehicles and the large investments required to carry out complex and brand-specific repair work²⁰⁴.

²⁰³ Particularly 'fast fit' chains.

²⁰⁴ Cf. Appendix 12 (Modelling Exercise 3 - Geographic Coverage).

IV.3.2.B 'Multi-channel'

If automobile distribution and after-sales servicing were to evolve towards a 'multi-channel' market structure, some developments, which were already mentioned in the 'status quo' market outcome, would be accelerated. These developments include:

- **Distribution market penetration by new entrants would mean:**
 - Increased competition from multi-brand, players in some high volume segments (particularly M1/M2);
 - Market entry of players from other industries (leasing, retailing, banking and insurance) and development of new roles for 'integrators';
 - Development of partnership agreements with the purpose of re-organising the link between sales and after-sales servicing activities.
- **Accelerated re-organisation of the official networks**, including a genuine re-focusing on high value added markets such as:
 - Distribution in the most specific car segments and spare parts including those most demanding in terms of expertise and logistics;
 - The more specialised repair and maintenance work on which the margins are highest;
 - General promotion of the brand and sales support (initiatives, test centres, follow up of warranty) that the networks provide in an effort to obtain customer loyalty;
 - Development of ancillary services (financial services, sale of second hand vehicles);
 - A Hub and Spoke organisation with big centres and specialised outlets to maintain a high density of service outlets and to maintain customer loyalty and benefits of proximity.
- **Innovation in services on the part of manufacturers**, particularly to retain important and captive markets. Manufacturers would use a rapid pace of innovation as a device to protect themselves from new entrants.

Besides these accelerated trends, new phenomena would emerge. These would include:

- **Greater competition between official and independent networks on the after-sales market:**
 - **Liberalisation of spare parts distribution** would lead to lower end-user prices of parts, a loss of market share in the sale of parts by dealers and erosion of wholesalers' and retailers' margins on them. Spare parts manufacturers' margins increase;
 - **Independent repairers** would occupy a better **market position** than in the 'status quo' market outcome, as their ability to retain market share increases due to better access to information.
- **A more independent market position for distribution players:**
 - The traditional players would more easily develop to multi-brand market positions;
 - The development of international activities by the major groups would be facilitated;
 - Relations between manufacturers and their networks would evolve and would operate more as partnerships;
- **The offers towards end-customers would be more diversified.** This would lead to increased **customer segmentation**. In this instance, segmentation by mode of distribution would increase.

Nevertheless, the 'multi-channel' outcome presents the following risks:

- **Pressure on the smallest players** (because they would be less able to bear the necessary investments) and the least innovative ones, particularly:
 - Pressure on small dealers and the smallest independent repairers;
 - Pressure on the networks of the weakest brands.
- **Upward pressure on distribution costs.** Although lean cost structures are likely to develop for certain customer segments or types of car, the upward pressures would impinge on the overall cost structure because of the co-existence of different competing channels:
 - Marketing and promotion costs would be affected;
 - To some extent, logistics costs brought about by the re-introduction of fixed costs and some brakes on lean distribution²⁰⁵ would be affected.
- **Disruptions in the market structure** including:
 - Emergence of new players²⁰⁶ and disappearance of existing small ones;
 - Market repositioning (specialists, generalists, single or multi-brand integrators) of traditional players along the value chain;
 - Emergence of new businesses, for example, manufacturers offering financing and leasing programmes²⁰⁷;
 - The need to organise continuity of service throughout the life of the vehicle (even if the continuity is not organised among the same players);
 - Risks for the density and even distribution of service outlets;
- **Increased requirement for regulation** (on the operational and legal levels) **of the system** would be necessary in order to:
 - Avoid discriminatory practices;
 - Guarantee service coverage;
 - Clarify rights and responsibilities within the industry.

²⁰⁵ New players entering the manufacturer's distribution network enlarge the network and thus induce extra costs (e.g. IT costs, stock costs, organisational costs). This makes it more difficult for the manufacturer to obtain an integrated and efficient distribution network.

²⁰⁶ E.g. multi-brand distributors, car supermarkets...

²⁰⁷ E.g. Ford Credit and Ford Insure, Cf. Appendix 8 (After-Sales Players point 8.1 illustrations).

IV.3.2.C 'Mass-selling'

In a 'mass-selling' situation, new entrants would penetrate the car distribution market. These players would centre their business model on multi-brand sales of high volume models.

Likely consequences of a 'mass-selling' situation would be:

- **Strong competition from the new entrants** who :
 - Would be in a position to develop **lean cost structures**²⁰⁸. Both production costs and distribution costs would fall, since these players would concentrate on standard models or special editions, standardisation and simplification of the sales process (fewer intermediaries);
 - Would be **large** and would not necessarily come from the automobile industry;
 - Tend to develop integrated sales and after-sales service solutions in **partnership with other independent after-sales players**;
 - Would be capable of generating **price reductions** (up to 10% in comparison with the current situation) on certain types of model and thereby **capturing up to 30% of new vehicle sales**²⁰⁹.
- **Major repercussions on the profitability of the official networks** that would face competition for a significant part of their turnover in new vehicle sales and also indirectly on other types of service. Hence the required reorganisation of the official networks is more radical than for the 'multi-channel' outcome:
 - The **critical size of dealers would increase** more significantly;
 - **Price differentials** would open up between best-selling models and more specialised ones sold through the official network. This would have a fundamental influence on the attractiveness of the official networks to consumers;
 - Manufacturers would set up **direct sales regimes** to compete with channels of the 'mass-sales' type.
- **Weakening of independent repairers** since the 'mass-sellers' would tend to form after-sales service partnerships with the biggest players organised along more international lines.
- **Dual impact for consumers:**
 - **Lower prices on some types of models**;
 - **Long-term trend toward reduced choice** (standardisation, uniformity of the sales process and reduction in the size of product ranges).

In this situation, the link to the systems-based analysis shows that there would be an **overheating effect on the various loops**. The product loop would reverse. It would become a vicious circle and would **limit the size of product ranges, simplify segmentation, and reduce the profitability of small downstream players**.

²⁰⁸ Cf. Appendix 1 (Modelling Exercise 4 – Distribution Costs).

²⁰⁹ Cf. Appendices 11 and 13 (Modelling Exercises 2 and 4 - Market Shares and Distribution Costs).

IV.3.3 Key indicators

The three market outcomes can be characterised by the following four families of indicators²¹⁰:

- The profitability of the official networks²¹¹;
- The market share of the players²¹²;
- The density of the service network²¹³;
- The structure of distribution costs²¹⁴.

The tables below show estimates of each outcome compared with the current situation.

IV.3.3.A. Profitability of the official networks²¹⁵

Profitability of an official dealer		Current situation	Status quo	Multi-channel	Mass-selling
P R O D U C T	Average size				
	Average number of sold cars per dealer	300	+ (+10%)	- then +/-	+ then ++
	Turnover	9 m. EUR	+ (+10%)	- then +/-	+ then ++
	Total number of outlets	100000+	-	=	-
	Product mix (% of turnover)				
	New car sales	50%	=	-	-
	Spare parts	10 to 15%	=	-	=
	Repairs	7 to 10%	=	+	+
	Profitability				
	Net global margin	1,00%	+	+	-
	Contribution margin on sales of vehicles	2,90%	+	+	-
	Contribution margin on sales of parts	17 to 18%	=	- (-5%)	- (-5%)
	Contribution margin on repairs	9 to 14%	=	= (-3%)	- (-3%)

- Table IV.7 -

The profitability of an official dealer varies according to the market outcome. In the **'status quo'** outcome, the size of the average dealer would increase because of the ongoing consolidation trend in car distribution. This would have a positive effect on the dealer's operating profit because of more efficient allocation of funds and a slightly higher margin on the sale of new cars.

Due to new players entering the market in a **'multi-channel'** situation, profitability of an average traditional dealer would decrease. However, competition would not affect all dealers to the same extent. Large and innovative companies offering a strong brand could even increase their operating profits. They would indeed be better able to face the increased competition and the rising cost of complex repair work.

In the **'mass-selling'** situation where 'mass-sellers' capture a large market share, the profitability of the average dealer would decrease even more. Again, the impact of 'mass-sellers' on existing dealers would differ depending on:

- The size of the dealer;
- The market positioning of the brand;
- Their ability to offer high-value-added services.

In the long term, the effects on profitability of the 'multi-channel' and 'mass-selling' outcomes would be partly counterbalanced by an increase in average dealer size (concentration of the network), and by an increase in the importance of specialised and complex repair work.

²¹⁰ Figures for the current situation and each of the developments are set out in the four 'Modelling Exercise' appendices.

²¹¹ Cf. Appendix 10 (Modelling Exercise 1 - Dealers Profitability) for more detail.

²¹² Cf. Appendix 11 (Modelling Exercise 2 - Market Share) for more detail.

²¹³ Cf. Appendix 12 (Modelling Exercise 3 - Geographic Coverage) for more detail.

²¹⁴ Cf. Appendix 13 (Modelling Exercise 4 - Distribution Costs) for more detail.

²¹⁵ Cf. Appendix 10 (Modelling Exercise 1- Dealers Profitability) for more detail.

IV.3.3.B. Players' market shares²¹⁶

Market share		Current situation	Status quo	Multi-channel	Mass-selling
C U S T O M E R L O O P	Fleet / final consumer (sales)				
	Fleet	40%	+ (50%)	+ (50%)	+ (50%)
	Sales by type of channel				
	Official networks	90 to 98%	-	-	-
	Direct sales	2 to 10%	+ (5 to 15%)	+ (5 to 20%)	+ (5 to 20%)
	Multi-brand dealers (% of network players)	24% on average	+ +	+ 50% on average	+ 50% on average
	Mass-sellers	0%	=	+ (10 to 15%)	+ (30%)
	Others (niche)	0%	=	+ (2 to 5%)	=
	Sales by car segments				
	Segment A/B	23%	=	-	=
	Segment M1/M2	47%	=	=	+ (5 to 10%)
	Other segments	30%	=	+ (+2 to 5%)	-
	Sales by type of model				
	Standard models and special lines	35%	=	=	+ (50%)
	After-sales service by type of channel				
	Official network (% of overall market value)	52%	=	+	+
	Independent repairers (% of overall market value)	34%	- (-5 to 15%)	- (-5%)	- (-30%)
	Fast fit chains (% of overall market value)	7%	+	+	+ Up to 15%
	Other new channels (% of overall market value)	6%	=	+	+

- Table IV.8-

As explained in the analysis of the customer loop, the **market shares of single-brand networks in the sale of new vehicles would diminish**, particularly in the 'mass-selling' outcome.

As shown in the table, the development of new business models for 'mass-sales' that concentrate on large volumes of standard vehicles would bring about this erosion. The proportion of players developing this type of business model is higher in the 'mass-selling' outcome mainly because of a change in consumer demand.

There would be a **tendency for the market position of traditional independent repairers to weaken**. This decrease in market share would be apparent in all three outcomes. It is due to the great complexity of cars and the high investments required for repairing several brands. In a 'mass-selling' outcome, 'mass-selling' outlets would tie in with the large, reliable official repair networks and large specialist chains (e.g. 'fast fit' repair chains). This would inflict substantial harm on small, independent repairers.

²¹⁶ Cf. Appendix 11 (Modelling Exercise 2 - Market Share) for more detail.

IV.3.3.C. Service network density

Density of service network		Current situation	Status quo	Multi-channel	Mass-selling
R E L I A B I L I T Y L O O P	Sales service				
	Number of outlets in the official network	106.000	-	--	---
	Total number of sales outlets	106.000	-	+	-
	After-sales service				
	Number of "full facility" outlets (sales and repair)	106.000	--	-	---
	Number of official "repair only" outlets	11.000	+	+	++
	Number of (generalist) independent repairers	118.000	-	-	---
	Number of multi-brand specialist outlets	100.000	+	+	+
	Total number of after-sales outlets	335.000	=	=	=

- Table IV.9-

In the **current situation**, there is an **average of 32 sales outlets per 1000 km² in the European Union**.

However, a closer look at the networks of different players reveals a **significant variation between brands**. On average, networks of specialised brands sell the highest volume per outlet while networks of Asian brands sell the lowest. High-volume brands (General brands) have an intermediate market position. New channels such as supermarkets, banks and insurance companies might add considerably to sales volume. However, this would be true only of specific models and/or brands.

The number of after-sales service outlets is nearly equally divided among the three main after-sales channels: 35% for both the official and independent repairers and 30% for new channels (e.g. 'fast fit' repair chains). There is no significant difference in the number of cars repaired per outlet as between these three channels.

'Status quo' outcome

The network consolidation trend would continue in the immediate future, and would mainly focus on sales outlets. High-volume brands (General brands) might consolidate their networks even more than Asian and specialist brands.

Concentration in the sales network would **decrease the number of 'full facility' outlets**. In addition, because of the increasing complexity of cars, ever-greater investments would be required to carry out complex repairs on multiple brands. **This would force small, traditional, independent repairers out of the market.**

However, these two trends would not affect the overall number of repair outlets which would be maintained through development of both official 'repair only' outlets and multi-brand specialists.

'Multi-channel' outcome

New entrants would capture up to 15% of total sales. Again, **new players would not affect each brand in the same way.** The increased competition would not alter the market position of specialised brands, which would target a different sub-segment. The official networks of Asian brands would suffer the greatest loss due to their cost structure and the fact they target the same sub-segment (M1/M2) as potential new entrants. High-volume brands (General brands)' networks would also be impacted, but to a lesser extent.

In addition to the market entry of new players in the sales market, specialisation is likely to occur in after-sales servicing. These two tendencies would tend to **reduce the number of 'full facility' outlets.**

A **reduction in independent repairer outlets** would be likely, but the decrease would be less than that described in the 'status quo' situation. Independent repairers would be better able to handle the increased complexity of repair work due to improved access to technical information. Again, both official 'repair only' and multi-brand specialists would benefit from the losses of the other two channels.

'Mass-selling' outcome

'Mass-sellers' would enter both new car distribution and after-sales servicing markets, capturing up to 30% market share.

'Mass-sellers' would compete mainly against Asian brands and outlets of high-volume brands, as opposed to specialised brand outlets. The overall official sales network would shrink from 106,000 outlets at present to 75,000. outlets of smaller brands would suffer the greatest losses.

'Mass-selling' outlets are likely to collaborate with large, official repairers and large, multi-brand specialists. This would harm independent repairers (generalists). Although the total number of service outlets will remain unchanged, the respective market shares of official 'full facility' dealers, official 'pure' repairers and independent repairers would change greatly.

IV.3.3.D. Structure of distribution costs

Structure of distribution costs		Current situation	Status quo	Multi-channel	Mass-selling
P R I C E L O O P	New vehicles (% of end consumer price)				
	Production costs	61%	=	=	=/-
	Marketing costs	12%	=	+	+
	Customer discounts	8%	+ (+2 to 5%)	=	+ (+5 to 10%)
	Buildings and related costs	2%	-	= /.	-
	Other distribution costs	10,50%	-	=	-
	Manufacturers' margins	2,50%	+	=/-	=/-
	Distributors' margins (importers + dealers)	4%	+	+/-	=/+
	Spare parts (% of end consumer price)				
	Suppliers' margins	5%	=	+	=
	Others' margins	30 to 32%	=	-	-

- Table IV.10 -

It is difficult to grasp the impact on the generic cost structure of the industry since different types of players would tend to have different cost structures.

In a situation where a significant proportion of players would be able to implement lean distribution, average distribution costs would be lower than at present.

It does, however, appear that a possible 'multi-channel' outcome would not lead to a genuine slimming down of distribution costs, essentially because of the increased complexity of flows and the greater number of players.

Finally, when the market develops into a 'mass-selling' outcome, 'mass-selling' players would drive the average cost of a car down mainly through a reduction of their own distribution costs (fewer intermediaries, standardised processes).

In both the 'multi-channel' and 'mass-selling' outcomes, the prices of and margins on original spare parts would fall because of the assumed liberalisation of this market.

IV.3.4 Evaluation

As requested in the Terms of Reference, the evaluation of the three possible outcomes ('status quo', 'multi-channel', and 'mass-selling') is organised along the following lines:

- The four **areas of competition** (inter and intra-brand competition, competition in the after-sales market, and European market integration);
- The four aspects of **consumer satisfaction** (level of product innovation, innovation in customer contact, reliability of service, and price);
- The **positions** of the six main categories of **industry players** (manufacturers, official networks, new entrants, independent after-sales players, spare parts manufacturers, and consumers).

The table below supports the assessment through a comparison with the current situation.

IV.3.4.A. Competitive targets

Areas of competition	Current situation	Status quo	Multi-channel	Mass-selling
Inter-brand Estimate based on the number of brands and brands per segment	High	=	=	+ Increase in price competition between brands
Intra-brand Estimate based on the number of channels with more than 5% market share and on the number of competitors per area	Low	Small increase in competition between official network players and competition from "fleet" players =/+	+ Diversity of coexisting business models	+ In the long run, competition is eroded by concentration of players and multi-branding becoming main practice
After-sales Estimate based on the after-sales market share of official dealers and other players and on the number of competitors per area	Medium	Pressure on independent repairers due to trends to specialisation and increasing product complexity =/-	+ Better access to technical information and to the trade	+ Better access to technical information and to the trade. However, in the long run, concentration tends to limit competition.
Market intergation Estimate based on the evolution of price convergence in EU	Low	+	+	+

- Table IV.11 -

Competition between dealers in the same network (intra-brand competition) would increase in the **'status quo' outcome**.

In the after-sales market, official repairers and 'fast fit' repair chains²¹⁷ would sustain their respective market positions while traditional, independent repairers would lose market share.

²¹⁷ As explained in Appendix 12 (Modelling Exercise 3 - Geographic Coverage).

The **'multi-channel'** outcome **would have a great impact on the level of intra-brand competition**. Within one brand (and within a given area) there would be three to five types²¹⁸ of competing distribution channels. However, intensity of competition would depend on the type of brand.

In the after-sales market, more traditional independent repairers would lose less market share than in a 'status quo' situation thanks to better access to information and to the opportunity to become certified. However, the trend of specialisation in repair activities would still be to their disadvantage.

The **'mass-selling' outcome** differs from the others in that the dominance of 'mass-sellers' would **stimulate both inter- and intra-brand competition in the short term**. This would cause some high volume car segments (M1/M2) to gain importance and thus make them more attractive to car manufacturers.

Since 'mass-sellers' would concentrate more on the sale of cars and less on repairs they would make alliances with large repair outlets - more specifically with large official repairers for complex repairs and large 'fast fit' outlets for routine ones. Again, this development is harmful to small independent repairers.

In the long term, however, due to strong concentration trends and greater development of multi-branding, **intra-brand competition could decrease**.

Finally, **all three future outcomes would facilitate market integration**. However, the speed of integration would vary with the market outcome and would be greatest in the 'multi-channel' and 'mass-selling' outcomes.

²¹⁸E.g., single brand outlets, multi-brand outlets, 'mass-selling' outlets, insurance companies, and banks.

IV.3.4.B. Customer Satisfaction

Customer satisfaction	Current situation	Status quo	Multi-channel	Mass-selling
Product innovation Estimate based on the number of brands, models, customer segments and on the average time to launch new products	High	=/+	=	Trends to reduce the size of the product range and - to increase the average time to launch new models
Customer-tailored contact Qualitative indicator used to assess the level of response to the specific needs of each category of consumer	Low	=/+ Emergence of new channels dominated by manufacturers and their official networks	++	Dominance of multi-brand mass-sales channels developing a standardised sales process =
Reliability Qualitative indicator used to assess the level of experience and reliability of the service players	Medium	=	=	=
Price Estimate based on the future price level for new vehicles, spare parts and repairs	Medium	+ Decline of average price from 2 to 5% for new vehicles sales, thanks to a rationalisation of distribution costs	No significant change in average prices =	Decline of average price up to 10% for new vehicles sales +

- Table IV.12 -

In the '**status quo**' outcome, customer satisfaction would be expected to increase slightly. The industry would respond to the various areas of customer satisfaction as follows:

- **Product innovation** would remain stable;
- **Customer contact** would likely become more tailored to the specific needs of each customer segment. Natural developments would include improved access to end customer information gathered from end customers who use the Internet. The internet is also increasingly serving as a tool to provide end customers with information;
- **The reliability** of the players would be preserved since the level of expertise of dealers and repairers would remain unchanged;
- There would be a **small decrease in the average price of a car while** prices of both spare parts and repair activities would remain stable.

The development of the car distribution industry towards a '**multi-channel**' structure would have a **positive impact on the overall level of customer satisfaction**. Areas of customer satisfaction would evolve as follows:

- The levels of **product innovation** and **reliability** would remain stable;
- The different types of players would position themselves in specific customer segments (single brand outlets, multi-brand outlets). All players, including current ones would need to become **more customer-oriented**.
- **Although there might be substantial price reductions in some segments, there would be no significant change in average prices;**
- A **reduction in spare parts prices** would result due to the liberalisation of the market in original spare parts;
- **Prices would converge between European countries**, for the same reasons as in the 'status quo' situation.

In the '**mass-selling**' outcome, some important aspects of customer satisfaction would **change**. Indeed, negative effects would outweigh the positive effects on prices. 'Mass-selling' would bring about the following changes:

- A boost in sales of standard cars and special editions which would reduce the innovation level and might, in the longer run would **reduce the range of vehicles available to the end-consumer**;
- **Uniformity and simplification of the sales process.**

IV.3.4.C. Position of important players

Positions of the groups of players	Current position	Status quo	Multi-channel	Mass-selling
Car manufacturers Estimate based on the ability of manufacturers to maintain control over their marketing policy, to optimise working relationships with their distribution and service partners as well as to guarantee safety throughout the life of the vehicle	Favourable	=	=	Loss of control over - their marketing policy
Official dealers Estimate based on prospects of increase in profitability of official dealers	Favourable	=	-	Major - rationalisation of networks
New entrants Estimate based on prospects of access to the distribution market for new entrants	Unfavourable	=	+	+ Strategic positioning
Parts suppliers Estimate based on the ability for these players to capture spare parts market share and to obtain higher margins	Unfavourable	=	+	+
Independent after-sales players Estimate based on the prospects of access to different after-sales markets (including specific repairs) for independent repairers	Unfavourable	=	+	+ Increase in market share for specific repairs
Consumers Estimate based on the evolution of customer satisfaction factors	Neutral	=	Better + response to specific needs	- Loss of choice

- Table IV.13 -

The market structure in the '**status quo**' outcome looks very much like the current situation in which the market position of the different players remains unchanged²¹⁹.

The '**multi-channel**' outcome would meet the expectations of everyone except the official dealers and thus best answers the needs of the various parties in the automobile industry - including consumers. In fact:

- In the short term, considerable pressure would be placed on the profitability of the official networks;
- The 'Multi-channel' outcome would open up the markets (sales and after-sales servicing) to new entrants;
- The diversification of channels would allow for a more tailored response to each of the consumer segments all of which may have different expectations;
- Spare parts manufacturers and independent after-sales players would have a greater opportunity to capture market share;
- Manufacturers would still have the necessary instruments available for controlling their marketing policy. However, a 'multi-channel' outcome would be liable, in the short to medium term, to give rise to additional costs and relative instability.

The '**mass-selling**' outcome is not clear-cut. On the one hand, some key players take advantage of a situation that would:

- Permit new players to enter the car distribution market;
- Increase the margins of parts suppliers because of the liberalisation of the original spare parts market;
- Strengthen the market position of specialised repairers.

On the other hand, this outcome would have a negative impact on:

- The marketing policy aimed at by car manufacturers;
- The end-customer because of a reduction in the number of available brands and models of cars;
- The certainty of the return on investment of the official dealers due to the increased competition within their territory.

IV.4. Conclusion

²¹⁹ An in-depth description of the economic impact of the 'status quo' situation on the players can be found in the assessment of the five legislative scenarios (Section III.2.7).





This fourth and last section of the study aimed at identifying the main long-term possible market outcomes for automobile distribution.

The pages below summarise the findings of Part IV.

IV.4.1 Potential long-term speeds of activation of the four industry causal loops

Under the influence of particular legislative levers (combinations of scenarios and variables) the activation speed of the various loops (product, customer, reliability, and price loops) is susceptible to fundamental change.

The table below describes the possible speeds of activation for each of the loops, together with the impact that a change in the speed of the loop may have:

	PRODUCT LOOP 	CUSTOMER LOOP 	RELIABILITY LOOP 	PRICE LOOP 
Possible long term activation speeds	<ul style="list-style-type: none"> - Lower - Same 	<ul style="list-style-type: none"> - Very high - Higher - Same 	<ul style="list-style-type: none"> - Higher - Same 	<ul style="list-style-type: none"> - Higher - Same
Impact of a major change in the speed of the loop	If the loop is slowed : <ul style="list-style-type: none"> - Accentuation of the differential between strong and weak brands - Reinforcement of the independence of some downstream players - Defensive strategies by manufacturers such as investing in marketing, customer relationship management and service - Increased in manufacturers' involvement in new downstream players 	If the loop accelerates : <ul style="list-style-type: none"> - Capture of market share in distribution by multi-brand players based on lean cost structures - No impact on overall demand - Capture of market share in distribution by players offering differentiated bundling services - Increase in the average size of distribution players and weakening of small ones - Intensified marketing activities by all players - Refocusing of brand networks on non-standard models and service - Evolution and differentiation of manufacturers' distribution strategies - Intensified internationalisation of players 	If the loop accelerates : <ul style="list-style-type: none"> - Increase in the market share of independent after-sales players - Weakening of the networks - Fluctuations in the level of value for money - Increased specialisation of the service outlets of official networks - Reinforcement of manufacturers' technical standardisation strategies - Reinforcement of specialised multi-branding 	If the loop accelerates : <ul style="list-style-type: none"> - Short-term price competition (especially over the most popular models and highly populated areas) - Accentuation of margin differentials between product/market segments - Accelerated concentration of players - Appearance of low cost channels - More developed segmentation and customer loyalty strategies

- Table IV.14-

This analysis highlights the following issues:

- **The combination of legislative levers aiming at opening markets may exert a braking force on the product loop:**

A combination of legislative levers such as the 'abolition of territorial exclusivity', the total lifting of restrictions on multi-branding', the 'abolition of incentives to sell the entire range' or the 'breaking of the link between sales and after-sales servicing' tend to open the market to new entrants and to increase the independence of distribution and service players. However, in the long term, they would slow the speed of activation of the product loop. For the weakest brand in particular, the overall pace of innovation in brands, products, and services, would be under threat.

- **Increased activation of the three other loops (customer, reliability and price loops) would create a drop in the profitability of the official dealers. This could also threaten the product loop.**

- **A strong activation of the customer loop** would allow, in the short term, for innovation in the distribution channels. However, it would **bring a risk of erosion of the traditional networks' market share since new entrants would likely develop more 'price competitive' business models**. If such a trend would further develop, in the long term, the industry could face domination by a single low cost and mass-sales distribution and service channel.





- **The main structural impact on the industry would result from the combination of legislative levers influencing the reliability loop and the market structure of after-sales servicing.**

The combination of the impact of lifting restrictions on multi-branding and breaking the link between sales and after-sales along with the other legislative variables would strongly accelerate the reliability loop. Increased after-sales competition may cause under-investment in complex and brand-specific repair work and hence may reduce coverage or increase prices for specialised repairs.

- **The price loop shows that a structural increase in price competition would only occur in a situation if the players in the industry were to develop differing cost structures.**

IV.4.2 Three long-term market outcomes

When combined, the scenarios and variables would modify the speed of the industry causal loops. In the long term, these developments can result in **only three different market outcomes – 'Status quo', 'Multi-channel' and 'Mass-selling'**. However, in the medium term, a state of instability may occur. This instability would mean that the four industry loops would face temporary disruptions. The table below shows the speed of activation of each loop in each of the market outcome:

Loops	Speed	Possible long-term developments	Status quo	Multi-channel	Mass-selling
PRODUCT LOOP 	Lower	Weakening of brand image and product innovation			X
	Same	Jointly managed marketing strategy between manufacturers and sales and service players	X	X	
CUSTOMER LOOP 	Very high	Domination of distribution by multi-branding (new entrants and evolution of traditional players)			X
	Higher	Co-existence of various distribution channels		X	
	Same	Domination of distribution by official networks and manufacturers' channels	X		
RELIABILITY LOOP 	Higher	Standardisation and specialisation in after-sales service and weakening of brand-specific networks to the benefit of specialised multi-brand players		X	X
	Same	Reinforcement of the official networks to the detriment of small independent players	X		
PRICE LOOP 	Higher	Change in the profile of consumer demand (increase in the proportion of sales falling within mass-market segments)			X
	Same	Price competition limited to certain segments or temporary situations of price differences	X	X	

- Table IV.15 -

The Andersen study analyses how each legislative combination of relevant scenarios and variables tend to lead to one of the market outcomes. The table below highlights these conclusions:

Legislative Scenarios	Sale / after-sales link	Multi-branding (sales and after sales)	Diversity of channels	After-sales variables	Market outcomes
Scenario 3A (minimum qualitative Selection criteria)	Broken	Full multi-branding	Unchanged	unchanged others → 'Mass-selling'
Scenario 4 (full selectivity - no exclusivity)	Reorganised	Full multi-branding	Several sets of criteria	Facilitatedothers → 'Multi-channel'
Scenario 5 (limited territorial Exclusivity)	Unchanged	Unchanged	Unchanged	Unchangedothers → 'Status quo'

- Table IV.16 -

Twenty-one combinations were retained because they were sufficiently varied and were relevant to analysing other frameworks. The table below shows those legislative combinations derived from the Terms of Reference, and the impact they have on changing the loops. An indication of the development trend toward a market outcome is given. Changes to the loops are described in the short and medium term, and then in the long term.

LEGISLATIVE COMBINATIONS						IMPACT	
	Scenarios	Link between sales and after-sales servicing	Multi-branding	Channel diversity	After-sales servicing variables	Changes to the activation level of the loops ²²⁰	Development towards a market outcome
1	5	Unchanged	Unchanged	Unchanged	Unchanged	R1 : = B2 : = B3 : = B4 : +/-	'status quo'
2	5	Unchanged	'Full multi-branding'	Unchanged	Unchanged	R1 : = B2 : = B3 : = B4 : +/-	'status quo'
3	5	Unchanged	Unchanged	Unchanged	Facilitated	R1 : -/= B2 : = B3 : + B4 : +/-	'status quo'
4	4	Unchanged	Unchanged	Unchanged	Unchanged	R1 : = B2 : = B3 : -/= B4 : + / =	Short-term instability then 'status quo'
5	4	Broken	Unchanged	Unchanged	Unchanged	R1 : -/= B2 : + B3 : +/- B4 : +	Instability
6	4	Reorganised	'Full multi-branding'	Several sets of criteria	Unchanged or Facilitated	R1 : -/= B2 : + / = B3 : = B4 : +/-	'multi-channel'
7	3	Unchanged	Unchanged	Unchanged	Unchanged	R1 : -/= B2 : = B3 : -/= B4 : +/-	Instability
8	3A	Reorganised	'Full multi-branding'	Unchanged	Unchanged	R1 : - B2 : =/- B3 : -/= B4 : +	Short-term instability then 'mass-selling'

²²⁰ The four loops are as follows: product loop R1; customer loop B2; reliability loop B3, and price loop B4. The symbols '+' indicate loop acceleration; '=' indicates an activation similar to the current situation; '-' indicates a slowing of the loop. When two effects are shown these relate to short, medium, and long-term impacts.

LEGISLATIVE COMBINATIONS						IMPACT	
	Scenarios	Link between sales and after-sales servicing	Multi-branding	Channel diversity	After-sales servicing variables	Changes to the activation level of the loops	Development towards a market outcome
9	5	Unchanged	'Full multi-branding'	Unchanged	Facilitated	R1 : -/= B2 : = B3 : + B4 : +/-	'status quo'
10	4	Unchanged	Unchanged	Unchanged	Facilitated	R1 : -/= B2 : = B3 : + B4 : +/-	Short term instability then 'status quo'
11	4	Unchanged	'Full multi-branding'	Unchanged	Unchanged or Facilitated	R1 : -/= B2 : + B3 : -/= B4 : +	Instability
12	4	Unchanged	'Full multi-branding'	Several sets of criteria	Unchanged or Facilitated	R1 : = B2 : = B3 : = B4 : =	'status quo'
13	4	Reorganised	Unchanged	Unchanged	Unchanged	R1 : = B2 : = B3 : = B4 : +/-	'status quo'
14	4	Reorganised	Unchanged	Unchanged	Facilitated	R1 : -/= B2 : = B3 : + B4 : +/-	'status quo'
15	4	Reorganised	'Full multi-branding'	Unchanged	Unchanged or Facilitated	R1 : - B2 : +/- B3 : +/- B4 : +	'mass-selling'
16	4	Broken	Unchanged	Unchanged	Facilitated	R1 : -/= B2 : + B3 : +/- B4 : +	Instability
17	4	Broken	'Full multi-branding'	Unchanged	Unchanged or Facilitated	R1 : - B2 : + B3 : - B4 : +	Short-term instability then "mass-selling"
18	4	Broken	'Full multi-branding'	Several sets of criteria	Unchanged or Facilitated	R1 : -/+ B2 : + B3 : -/= B4 : +/-	Short-term instability then 'multi-channel'
19	3A	Reorganised	'Full multi-branding'	Unchanged	Facilitated	R1 : - B2 : +/- B3 : -/= B4 : +	Short-term instability then 'mass-selling'
20	3A	Broken	'Full multi-branding'	Unchanged	Unchanged	R1 : - B2 : =/= B3 : -/= B4 : +	Short-term instability then 'mass-selling'
21	3A	Broken	'Full multi-branding'	Unchanged	Facilitated	R1 : - B2 : =/= B3 : -/= B4 : +	Short-term instability then 'mass-selling'

-Table IV.17 -

Status quo:

In the 'Status quo' outcome, **close relationships and integrated operations would remain between manufacturers and their networks.**

The speed of the four basic loops would not be changed in the long term, but current trends in the industry would be sustained, such as:

- Network reorganisation and concentration;
- Increase in distributors' marketing costs;
- Reduction in after-sales competition;
- Slight innovation in the approach to customers;
- Slight improvement in the level of market integration.

For example, the following legislative combinations would lead to such a market outcome:

- A combination based on Scenario 5A (i.e. selective, exclusive distribution, but with limited territorial exclusivity) with the relevant variables remaining unchanged;
- The combination of Scenario 4 (i.e. selective distribution with both qualitative and quantitative criteria) with a reorganisation of the sales/after-sales link while all other variables remain unchanged.

Multi-channel:

In the 'Multi-channel' market outcome, **distribution and service formats would be diversified and manufacturers would manage co-existing channels.**

Certain trends towards innovation and openness that favour the consumer would be accelerated. This would mean that trends already identified in the 'Status quo' would be reinforced, while new trends would appear, like better integration of new business models, increased customer segmentation, strong diversification of the players' market positioning and upward pressure on marketing costs. However, the re-distribution of market share between players and the arrival of new entrants may lead to instability in the short-term.

For example, a combination of Scenario 4 (selective distribution based on quantitative and qualitative criteria) along with the reorganisation of the sales/after-sales link and with a lifting of all restrictions on multi-branding for new entrants would lead to a 'Multi-channel' market outcome. However, this would only occur if different sets of criteria are defined and reasonably applied for each channel.

Mass-selling:

In the 'Mass-selling' market outcome, **the concentration of players would increase, product ranges would shrink while sales and service processes would become more standardised.**

Such a market outcome would bring major changes in the market positions of the players, reinforcement of new entrants, changes in the level of sales and after-sales competition and in demand characteristics. These changes would lead to different points of equilibrium for the four industry loops. The most important effect would be that the product loop would enter a downward trend.

For example, combining Scenario 3A (selective distribution based on purely qualitative minimum standards defined by the regulator) with a broken sales/after-sales link, full multi-branding, and facilitation of the after-sales variables would lead to a 'Mass-selling' situation.

IV.4.3 Comparative assessment

Trends identified in the three market outcomes converge to some extent, although sometimes there are considerable differences of intensity. Similar trends include:

- Continued reorganisation of the traditional official networks;
- Satisfactory level of reliability, safety, and quality of service;
- Unchanged density of coverage of service outlets;
- Pressures on traditional generalist independent repairers;
- Increased importance given to marketing efforts, customer relations, and innovation in channels;
- Progressive price convergence within Europe.

Over a series of other issues, however, there are considerable differences between outcomes. These differences include:

- The cost structures of the different players and the average prices of new vehicles;
- The market shares by types of players;
- The level of product innovation;
- The profile of competition;
- The speed of implementation of the 'lean distribution' concept.

The comparative assessment of the three market outcomes on the three impact areas defined by the Commission is summarised below:

IV.4.3.A. The areas of competition

- **The 'Mass-selling' situation is likely to have the largest impact on inter-brand competition because large multi-brand mass-market distributors might capture up to 30% of the market share in new car sales.** Inter-brand competition would remain effective in the other market outcomes.
- **Intra-brand competition would be most effective in the 'Multi-channel' situation because of the higher number of players on the one hand and their more diversified market positions on the other.** In the current situation, there is an average of 32 sales outlets per 1000km² in the European Union. In a 'Multi-channel' situation, market entry of new players may increase this density although the number of traditional official outlets is likely to decrease. Competing channels would include 'mass-market' players (which may capture up to 15% of the market shares), niche players (who would focus on innovative offerings or on specific car or customer segments), and direct sales from manufacturers.

In the '**Status quo**' situation, intra-brand competition would not be significantly modified. The number of sales outlets would progressively decrease due to network reorganisation. The market share of fleet companies, who would remain the only real independent alternative, would progressively increase from 40% to 50%.

Intra-brand competition would be reinforced in the '**Mass-selling**' outcome. However, over time, the concentration of players and the development of multi-brand practices would reduce the number of players, which may eventually lead to less effective intra-brand competition than in a 'Multi-channel' outcome.

- The search for economies of scale in the 'Mass-selling' outcome would cause a major decrease in the number of traditional independent repairers (the 100.000 independent service outlets in Europe might face a 30% decrease) and would reinforce the growth of new large servicing players such as repair chains. Competition in after-sales servicing would increase between branded repair outlets and multi-brand specialists.

In the 'Status quo' situation, there would be a slight decrease in after-sales competition due to the reinforcement and specialisation of official dealers. The number of official 'repair only' outlets would progressively increase.

In the 'Multi-channel' situation, independent repairers would be better able to defend their positions, thanks to improved access to technical information, greater specialisation, and relationships with independent sales channels. Competition in after-sales servicing would be reinforced.

- The level of integration between European markets and convergence of pre-tax prices is likely to increase within the three market outcomes.

Areas of competition	Current situation	Status quo	Multi-channel	Mass-selling
Inter-brand	High	=	=	+
Intra-brand	Low	=/+	+	+
After-sales	Medium	=/-	+	+
Market intergation	Low	+	+	+

- Table IV. 18 -

IV.4.3.B. Satisfaction of consumers' needs

- **The 'Status quo' situation would best guarantee diversified product ranges** thanks to highly integrated distribution practices and manufacturers' strategies. Specifically, the financial risk related to the launch of new models is minimised and thereby promotes diversification in the product range.
In the **'Multi-channel'** outcome, the level of product innovation should not be affected.
The 'Mass-selling' outcome involves a certain risk of product range shrinkage and a slowing of the innovation cycle.
- **The importance given to marketing efforts** – which are currently 12% of the distribution costs-, **customer relationships and channel innovation initiatives should increase further.** In the 'Status quo' outcome manufacturers and their networks would largely dominate such initiatives whereas in 'Multi-channel' and 'Mass-selling' situations, different players would reinforce such trends.
- **The levels of reliability, safety and service quality should in the long term remain satisfactory in all three outcomes although the levels of price may differ.** After the period of instability in the 'Mass-selling' situation, no market outcome would bring about a major safety risk in the long term since players tend to adapt their strategies and their prices to satisfy this essential factor.
- **The cost structures of the various players and the average price of new cars would differ according to the market outcomes.**
In the **'Mass-selling'** situation, the search for economies of scale, specialisation in distribution and simplified sales processes where the product becomes a commodity would allow certain types of players to develop cost structures that are more competitive than those of traditional players (5 to 10% decrease). In this highly competitive situation, all players' distribution cost structures are likely to converge through rationalisation and concentration.
In the **'Status quo'** outcome an estimated 2-5% rationalisation of distribution costs would take place and be partially reflected in consumer prices.
In the **'Multi-channel'** outcome, the differences between the market positions of the various players are greater. This situation would lead to more varied distribution costs. In turn, while the average price of a new car would remain stable, price decreases could be reached in some specific customer segments.
- The prices of original spare parts and the margins would decrease in both the 'Multi-channel' and 'Mass-selling' outcomes, following a certain liberalisation of this market.

Customer satisfaction	Current situation	Status quo	Multi-channel	Mass-selling
Product innovation	High	=/+	=	-
Customer-tailored contact	Low	=/+	++	=
Reliability	Medium	=	=	=
Price decrease	Medium	+	=	++

- Table IV. 19 -

IV.4.3.C. The positions of the players

- **Reorganisation of the traditional official networks would occur in every market outcome.** Reorganisation would include promoting size on the one hand and specialisation on the other. However, **these effects are the most marked in the 'Mass-selling' market outcome.**
- **Traditional 'generalist' independent repairers face pressure in all market outcomes.** Both the increasing specialisation of the networks (particularly in the 'Status quo' outcome) and of players such as fast-fit repair chains (especially in 'Mass-selling') would weaken their position.
- **Market share by type of player varies according to the type of market outcome²²¹.**
The **'Multi-channel' situation is the only one that would truly offer diversified sales process and products possibilities to fulfil the needs of all consumer segments.** These include co-existence of full-facility companies (distribution and after-sales servicing) and companies combining sales and other types of ancillary service (fleet companies might, for example, operate increasingly independently of official networks). In addition, market entry by companies focusing on high sales volumes of cars at a low price (an estimated market penetration of 15%) is likely to occur as well as the emergence of new niches in specific areas.
In the **'Status quo'** outcome, the traditional official networks would continue to dominate distribution and drive innovative initiatives.
The **'Mass-selling'** situation would tend to standardise the sales process and would be dominated by larger multi-brand companies.
- **Establishing 'lean distribution' is made easier in the 'Status quo' situation, which is characterised by stable and long-term relationships between the manufacturer and their network.** In the two other outcomes, the changes in market structures are likely to slow down the mechanism in the short term.

Positions of the groups of players	Current position	Status quo	Multi-channel	Mass-selling
Car manufacturers	Favourable	=	=	-
Current official dealers	Favourable	=	-	-
New entrants	Unfavourable	=	+	+
Parts suppliers	Unfavourable	=	+	+
Independent after-sales players	Unfavourable	=	+	+
Consumers	Neutral	=	+	-

- Table IV. 20 -

²²¹ Cf. Appendix 11:(Modelling Exercise 2 - Market Share).

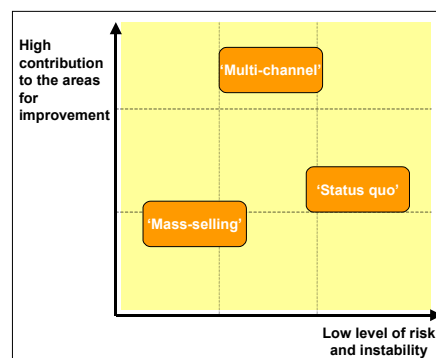
IV.4.4 Conclusion

A regulation based solely on one scenario or variable would not fundamentally change present developments in the industry. However, **the combination of several variables or the combination of variables and other scenarios would influence the market structure and characteristics of automobile distribution and servicing.** By keeping only the most relevant and varied scenarios, together with the most critical variables, and analysing the consistency of the scenario-variable combinations, a great number of different possible legislative combinations have been identified.

A system-based analysis of the impact of the scenarios and variables on the industry reveals that, in the long term, industry developments can result in only three market outcomes. In the meantime, however, an unstable situation may appear under certain conditions. These market outcomes are:

- The **'Status quo'** outcome, in which manufacturers and their official network would continue to jointly invest in the brand, would allow for progressive developments such as slight innovation in customer contact and a decrease in distribution costs. This market outcome is also the less risky one.
- The **'Multi-channel'** outcome would more rapidly address the variety of customer needs. Manufacturers would be forced to manage the co-existence of different channels for car sales and servicing. A new equilibrium of market share among players would be reached. Such a market outcome would, however, include risks of disruption in the short-term.
- The third market outcome, **'Mass-selling'** would include standardisation and concentration in the automobile distribution industry. This situation would create a decrease in the level of product innovation, a standardisation of the sales process, and a reduction in the vehicle ranges. This outcome would generate a more significant price decrease. However, it is likely that the other areas of customer satisfaction would be altered.

The diagram below represents the level of contribution that each of the market outcomes provides to the set areas for improvement as well as the level of risk and instability:



- Diagram IV.11 -

Some examples of legislative combinations leading to market outcomes are described below:

- Scenario 5 combined with a complete lifting of the restrictions on multi-branding would lead to a 'Status quo' outcome;
- Scenario 4, combined with a reorganisation of the link between sales and after-sales with all other factors remaining unchanged would also lead to a 'Status quo' outcome;
- Scenario 4 with a reorganisation of the link between sales and after-sales servicing and with a system of several sets of criteria for selection and remuneration would lead to a 'Multi-channel' outcome;
- Scenario 3A with a reorganisation of the link between sales and after-sales and a complete lifting of multi-branding restrictions would lead to a 'Mass-selling' outcome.

The detailed evaluation of the three market outcomes provides the Commission with a comprehensive view of potential future outcomes of the industry that may result from changes in the legislative regime. This allows an impact comparison together with the sensitivity analysis to be performed for the various legislative combinations. More generally, the impact reference model is an analytical tool to help the Commission in its task of determining future legislation applicable to vehicle sales after September 2002.