
Anticipated acquisition by Autoglass Limited of Nationwide Autoglazing Limited and Glasscare Limited

The OFT's Decision on reference under section 33 given on 25 January 2006.
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Please note that square brackets indicate figures or text which have been deleted or replaced with a range at the request of the parties for reasons of commercial confidentiality

PARTIES

1. **Autoglass Limited** (Autoglass) is active in the repair and replacement of vehicle glass for all types of vehicles. Through a network of directly employed glass fitters, Autoglass operates at a national level throughout the UK.
2. **Nationwide Autoglazing Limited** (Nationwide) also offers repair and replacement of vehicle glass services. Nationwide does not employ glass fitters directly, but relies on a national network of independent glass fitters. Nationwide's UK turnover for the year ended December 2004 was £8m.
3. **Glasscare Limited** (Glasscare) is a small company set up by the owners of Nationwide. Glasscare operates a direct billing and claims management system called Supplier Invoice Control Programme (SICP), which manages aspects of the repair and replacement of vehicle glass process on behalf of independent glass fitters. Its UK turnover for the year ended April 2005 was £[].

TRANSACTION

4. Autoglass is proposing the acquisition of the entire issued share capital of Nationwide and Glasscare for a consideration of £[]. Autoglass originally submitted details of the acquisition to the OFT in the form of a merger notice on 29 November 2005. However the case is now being considered as an informal submission and the administrative target date for a decision is 27 January 2006.

JURISDICTION

5. As a result of this proposed transaction (to be conducted in the form of a single share purchase agreement), Autoglass, Nationwide and Glasscare would cease to be distinct. The share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met on the basis that the merged entity would supply more than 25 per cent (i.e. approximately [] per cent) of repair and replacement of vehicle glass services in the UK. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation between Autoglass, Nationwide and Glasscare.

RELEVANT MARKET

Product market

6. Autoglass, Nationwide and Glasscare offer repair and replacement of vehicle glass services in the UK. Autoglass and Nationwide offer a complete glass fixing service respectively through employed glass fixers and an independent national network of glass fixers. Glasscare, by means of a system called Supplier Invoice Control Programme (SCIP), offers more limited intermediary services between glass fixers and insurance companies, organising payment for the provision of such services by means of direct billing and through the handling of insurance claims.
7. Vehicles suffer glass damage primarily as a result of an accident, road debris or incidents of theft or vandalism. Most vehicles in the UK are insured against glass damage and breakage. Subject to an excess payment (usually between £50 and £75) by the motorist, the costs of replacing a broken windscreen are paid by the insurance company. However, in cases where the screen is repaired, the motorist is typically not required to pay any excess.
8. On the demand side, there are no obvious substitutes for the repair and replacement of damaged vehicle glass. This view is supported by a previous decision¹ taken by the European Commission.
9. The information currently available to the OFT indicates that on the supply side, all vehicle glass fixers can undertake repairs and fit replacement glass for any type and brand of vehicle.

¹ Comp/M.1652 – D'leteren/PGS: '*...the repair and replacement of automotive glass .. would constitute another product market*'.

10. Consequently, without drawing any conclusions as to the exact scope of the product market, the focus of the analysis in this paper is on competition in repair and replacement of vehicle glass services ('vehicle glass fixing').

Geographic market

11. The parties maintain that, because the major insurance companies and the major suppliers in this sector (including the parties to the proposed merger) operate at a national level, the supply of vehicle glass fixing has a national scope.
12. There may be local aspects to competition between smaller vehicle glass fixers who operate at a regional or local level. However, as all the parties operate on a national basis, this distinction is not relevant for the purposes of this case.
13. The relevant geographic scope is therefore considered to be the UK.

HORIZONTAL ISSUES

Market shares

14. No accurate share of supply data is available from any independent source. The parties' best estimates of shares of supply are listed below.

Table 1: Autoglass estimates of UK shares of supply of repair or replacement vehicle glass services in 2005, by number of jobs.

Supplier	Number of Jobs	% Share
Autoglass	[]	[40-50]
Nationwide	[]	[0-10]
Combined	[]	[40-50]
RAC	[]	[20-30]
National Windscreens	[]	[0-10]
Others	[]	[20-30]
Total	[]	100

Source: Autoglass best estimates

15. On this basis, the merger would result in a post merger HHI of [2000 – 3000] with an increment of [100 - 200].² This indicates that the sector is highly concentrated and that the increment is significant.
16. Autoglass argues however that these ostensible shares of supply do not take account of the following key market developments:

² This is on the basis that the market shares attributed to 'Others' have not been included in the HHI calculation.

- the recent acquisition of RAC by Norwich Union (Aviva) which will result in an increase in market share for RAC as Norwich Union (Aviva) switches from other providers;
 - the recent decision by two key customers, NFU and Link Insurance, to switch away from Nationwide.
17. The parties provided internal documents which point to an expectation that only around [40-50] per cent of the total [] jobs undertaken by Nationwide in 2005 are expected to accrue to Autoglass post merger. On this basis the increment to Autoglass' share of supply as a result of the transaction would be less than 5 per cent. However, this would still amount to a HHI delta of [50-100] and therefore may still be an indication of potential competition concerns given that the sector is already so highly concentrated.
 18. A number of third parties raised concerns regarding this proposed transaction. Some contend that Nationwide is a significant competitor, proposing that it may have accounted for as many as 10 per cent of all jobs carried out in the UK. Some submit that there are currently very few (estimates vary between two and four) suppliers in the industry able to provide the national coverage that insurers require.
 19. However, the supply of vehicle glass fixing is subject to the considerable constraint posed by insurance companies who have a keen commercial interest in managing their costs. Suppliers compete for the insurers' business on the basis of price and quality to attain 'preferred' status with a particular insurance company. On this basis, the insurer will, wherever possible, refer its policyholders to its preferred supplier(s) who will subsequently invoice the insurer directly (the policyholder need only pay the supplier upfront any excess applicable to their policy). An average of 81 per cent of all vehicle glass fixing claims are settled between insurers and their preferred suppliers.
 20. Insurance companies typically review their preferred supplier arrangements every one to three years. The majority of comments made to the OFT by insurers indicate that switching between suppliers is easy and can be undertaken at no significant cost.³
 21. Additionally, as indicated in Table 2 below, there appears to be an abundance of spare capacity amongst the parties' main competitors.

³ The only costs involved are those associated with arranging a tender and with re-printing their policyholders' insurance documents.

Table 2: Current levels of spare capacity confirmed by OFT

Supplier	Current output (Number of Jobs per annum)	Spare capacity (Number of Jobs per annum)	% of current output
RAC	[]	[]	[]
National Windscreens	[]	[]	[]
Autowindshields	[]	[]	[]
AVG	[]	[]	[]
Total	[]	[]	[]

Source: Responses to OFT questionnaire

Note: given that capacity information is commercially sensitive to each of the suppliers concerned, this data will not be made available to parties to the proposed merger and will be excised outright prior to publication.

22. Consequently, the merged entity's prices and service levels will continue to be subject to constraints posed by potential loss of preferred supplier arrangements with insurers.

Barriers to entry and expansion

23. The majority of third parties are of the view that market entry on the basis of Autoglass's business model (a network of directly employed vehicle glass fixers) would be extremely difficult and take a considerable period of time (over five years).
24. The parties propose nonetheless that it would be easy for a group of independent vehicle glass fixers to replicate the networked operation that was set up by Nationwide.
25. Third party comments are mixed in respect of the ease with which the Nationwide business model could be emulated. One respondent is of the view that such a network could be fairly easily set up within 12 months. Another considers that the organisation of a large number of independent vehicle glass fixers is likely to prove difficult and notes that it had taken Nationwide a number of years to achieve a significant share of the market.
26. Third party views are also mixed on the ability of smaller competitors to expand. Some competitors consider that expansion would be easily achievable in the event of any increase in demand. Others, however, take the view that the scope for expansion is limited to the extent that there would be a shortage of trained glass fitters.
27. All of the competitors who responded to the OFT's enquiries currently had spare capacity. In addition, as Autoglass intends to close Nationwide down, much of

Nationwide's glass fixing capacity will become available to the wider market. It is therefore likely that any barriers to the ability of the merged entity's competitors to expand will be lower post merger. Finally, given sufficient consumer demand, it would be profitable for any rival firm to train more glass fitters in the event that there were insufficient numbers available in the market.

Buyer power

28. The parties submit that the major insurers exert significant market power over suppliers. A large proportion of the total vehicle glass fixing business is driven by the 'preferred supplier' arrangements between the suppliers and the insurance companies - see paragraphs 19 and 20.

VERTICAL ISSUES

29. The transaction raises no vertical issues.

THIRD PARTY VIEWS

Autoglass/Nationwide

30. The concerns raised by a number of third parties can be summarised as follows:
- a. the removal of Nationwide would result in a significant reduction in the number of vehicle glass fixers operating at a national level, and
 - b. Autoglass could deny its rivals access to Glasscare's SICP system or raise the prices at which jobs under SICP are carried out.
31. However, for the reasons set out above (and summarised below) the OFT does not consider that these concerns indicate a substantial lessening of competition in the UK supply of vehicle glass fixing.

Glasscare

32. A number of third parties raised concerns regarding the acquisition by Autoglass of Glasscare's SICP system.
33. The concerns were that, post merger, Autoglass would either:
- a. raise the price at which jobs are undertaken using the SICP facility, or
 - b. restrict competitors' access to the SICP facility.

34. However, as noted above, insurance companies are well-informed and price sensitive. If prices at which SICP jobs are undertaken were to increase, there would be no incentive for insurers to make use of the system.
35. The number of vehicle glass fixing jobs undertaken by means of SICP, at less than [] over the course of last year ([< 5 per cent] of the national total), is relatively small. This is confirmed by data provided by the nine insurance companies who responded to the OFT's questionnaire. Of these, only three made any use of the SICP. For those insurers who do use SICP, the proportion of jobs invoiced through the system is less than [< 20 per cent].
36. Consequently, even if the parties were to take either of the actions described at paragraph 33 (a) or (b), the OFT is of the view that this does not raise concerns for competition.
37. Autoglass is also part of the Belron group of companies, amongst which is Laddaw Ltd, the largest wholesale supplier of automotive glass in the UK. One third party was concerned that this vertical relationship may give rise to concerns given that Glasscare's SICP prices are set with reference to Laddaw's wholesale prices.
38. However, in view of the fact that Laddaw's prices are already a factor in Glasscare's prices and that SICP system accounts for only a very small number of the total jobs undertaken, the OFT does not consider that the vertical links between Laddaw and Glasscare would lead to a substantial lessening of competition.

ASSESSMENT

39. The parties overlap in the supply of repair and replacement of vehicle glass services in the UK.
40. It seems likely that Nationwide currently poses a degree of competitive constraint on Autoglass. A number of third parties have expressed concerns with regard to a loss of a significant competitor operating at national level in an already concentrated sector which would offer few post merger alternatives.
41. However, the available evidence also indicates the existence of several competitors who are of equivalent size and have sufficient geographical coverage to provide an alternative to Nationwide. The insurance companies who, acting as agents for their customers the motorists, account for the majority of purchases,

enjoy substantial market power and incur low switching costs. There is also significant spare capacity amongst the parties' competitors.

42. Some third parties also raised concerns in relation to Autoglass's acquisition of Glasscare and its Supplier Invoice Control Program (SICP) system of facilitating transactions between insurance companies and glass fixing suppliers. However, the number of repair and replacement jobs invoiced through this system represents less than [< 5 per cent] of the UK total. The OFT therefore considers that changes to the SICP system will not have any adverse impact on competition.
43. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

44. This merger will therefore **not be referred** to the Competition Commission under section 33(1) of the Act.