

# **Aftermarkets for Domestic Electrical Goods**

Findings on aftermarkets and the launch of a short  
market study into extended warranties

April 2011

OFT1320

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# 1 INTRODUCTION AND SUMMARY

## Introduction

- 1.1 On 25 November 2010 the OFT launched a market review of the Domestic Electrical Goods (DEGs) sector comprising:
- a review of the Restriction on Agreements and Conduct (Specified Domestic Electrical Goods) Order 1998 (DEGs Order), and associated undertakings and assurances (Remedy Review), and
  - an invitation to comment on a possible market study into aftermarkets for DEGs, specifically DEGs repairs and extended warranties on DEGs (EW).
- 1.2 This document focuses on the outcome of the consideration of a possible market study into aftermarkets for DEGs. The OFT's remedy review analysis is ongoing. It expects to come to a conclusion on the remedy review by the summer of this year.<sup>1</sup>

## Summary of conclusions regarding aftermarkets for DEGs

- 1.3 The OFT invited comments<sup>2</sup> from interested parties on whether it should launch a market study into aftermarkets for specified brown and white DEGs,<sup>3</sup> including:

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<sup>1</sup> Should the OFT consider that there has been a change of circumstances which means that the DEGs Order and undertakings are no longer appropriate and should be varied, revoked, or superseded, the OFT would provide advice to the Competition Commission (CC), which would then take the final decision on what should happen to the DEGs Order and undertakings. The OFT takes the final decision regarding what should happen to the assurances.

<sup>2</sup> The OFT's invitation to comment can be found at: [www.offt.gov.uk/shared\\_offt/markets-work/oft1287.pdf](http://www.offt.gov.uk/shared_offt/markets-work/oft1287.pdf).

<sup>3</sup> The DEGs included within the scope of the OFT's market review at its launch were televisions, hi-fi systems, video cassette recorders, video camcorders, washing machines, tumble driers, dishwashers and cold storage equipment (refrigerators and freezers) – these are products

- **DEGs repairs**, where potential concerns had been raised with the OFT that manufacturers seemingly imposed restrictions on the ability of independent repairers to access spare parts and technical information.
- **The supply of EWs on DEGs**, where there have been long-standing concerns that restrictions in competition lead to higher prices for EWs.<sup>4</sup>

1.4 The OFT has received comments from across the DEGs sector on these issues, including from manufacturers, retailers, insurers, repairers, trade associations and a consumer body. The OFT has carefully considered these comments, and the accompanying evidence, in order to determine whether there are sufficient concerns to justify a market study and whether it would be a priority for the OFT.<sup>5</sup>

1.5 Following that consideration, the OFT has decided to launch a short and tightly focused market study into EWs. It has received credible concerns that competition may be restricted as a result of retailers' competitive advantage through their ability to cross-sell EWs at the point of sale (POS) of the accompanying DEG and that EWs may not represent good value for money.

1.6 The OFT has not received sufficient evidence of competition concerns in the market for DEGs repairs. Hence the OFT has decided that a market

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covered by the DEGs Order. The OFT also considered DVD players and electric cookers to provide comparator products to those covered by the DEGs Order. The inclusion of these latter products was to enable the OFT to compare the circumstances that exist for brown and white DEGs covered by the DEGs Order to other brown and white DEGs not covered by the DEGs Order.

<sup>4</sup> The background to competition concerns regarding EWs can be found in chapter 3 of this document.

<sup>5</sup> The OFT prioritises its work according to its published prioritisation principles. These can be found at: [www.offt.gov.uk/shared\\_offt/about\\_offt/oft953.pdf](http://www.offt.gov.uk/shared_offt/about_offt/oft953.pdf).

study into this sector would not be a priority for the OFT at the current time.<sup>6</sup>

- 1.7 It is important to note that the OFT's findings represent the conclusions of a limited assessment which was intended to determine whether a market study should take place, rather than a more comprehensive assessment of the functioning of the markets.

### **Structure of this document**

- 1.8 The remainder of this document sets out:
- the OFT's assessment of the market for DEGs repairs
  - the OFT's assessment of the market for EWs
  - the scope of the short market study into EWs
  - possible outcomes of the market study, and
  - next steps regarding the market study.

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<sup>6</sup> The OFT's invitation to comment also referred to the servicing of DEGs. However, the OFT has not considered this further given that very few DEGs now require servicing.

## **2 DEGS REPAIRS**

2.1 The OFT had received preliminary evidence from several sources identifying concerns about DEGs repairs. This preliminary evidence suggested that manufacturers may restrict the ability of independent repairers to access the spare parts and/or technical information that they need to compete effectively for DEGs repairs. Hence, the OFT decided to invite comments from interested parties to enable it to make a fully informed decision as to whether to launch a market study into this issue. This chapter provides a short summary of the OFT's findings and its decision on the merits of carrying out a market study in this sector.

### **Restrictions on the availability of spare parts and technical information**

2.2 The OFT has received mixed evidence on the nature and extent of restrictions on the ability of independent repairers to access spare parts and technical information. A summary of the key comments from parties is shown in table 2.1.

**Table 2.1: Summary of key comments regarding restrictions<sup>7</sup>**

	<b>Views on spare parts</b>	<b>Views on technical information</b>	<b>Other issues</b>
<b>Manufacturers</b>	No, or limited, restrictions. Spare parts are generally available from manufacturers (with volume discounts available to repairers) or from a wide range of third party providers.	Technical information is often available through manufacturer websites. Some manufacturers did refer to some restrictions to ensure that information is only made available to qualified repairers to ensure quality and safety of repairs.	

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<sup>7</sup> This is a summary of the key points raised by categories of parties. It is not intended to be a fully comprehensive account of the individual views of each party in that category, but a summary of the general position.

<b>Retailers (which often conduct repairs)</b>	<p>Most retailers have not identified concerns regarding the availability of spare parts. Some medium sized retailers, however, have expressed concerns regarding high prices of spare parts, particularly where a manufacturer supplies parts through a single reseller.</p>	<p>Most retailers have not identified concerns regarding the availability of technical information. Some medium sized retailers, however, have expressed concerns regarding the availability of technical information.</p>	<p>Some retailers have raised concerns about manufacturers running out of stock of particular spare parts<sup>8</sup> or not providing information on spare parts delivery times to enable them efficiently to conduct repairs.</p>
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<sup>8</sup> The OFT notes that this is consistent with the information in the last comprehensive survey of independent repairers which it conducted for the EW market study in 2001. In that survey, the main issue which independent repairers faced when trying to access spare parts was that the manufacturer was out of stock of a particular part rather than manufacturers refusing to supply parts (see [www.offt.gov.uk/shared\\_offt/reports/consumer\\_protection/oft387a.pdf](http://www.offt.gov.uk/shared_offt/reports/consumer_protection/oft387a.pdf)).

<b>Repairers</b>	Trade associations representing some 1,400 repairers have expressed few concerns, noting that spare parts are generally available (often at a discount to repairers). A trade association representing some 150 repairers has expressed significant concerns that spare parts prices are excessive.	Trade associations representing some 1,400 repairers have expressed few concerns, noting that technical information is generally available to qualified repairers, although the approach differs by manufacturer with some being more restrictive. A trade association representing some 150 repairers has expressed significant concerns that technical information is not generally available.	One trade association has raised concerns about the availability of spare parts after the manufacturer has stopped producing the DEG to which the spare part relates.
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2.3 Overall, during the consultation process:

- more concerns were raised about access to technical information than spare parts
- more concerns were raised about restrictions for white rather than brown goods<sup>9</sup>
- more concerns were raised about restrictions imposed by relatively small manufacturers than larger manufacturers. For example, one spare parts distributor who acquires spare parts from a wide range of white goods manufacturers has indicated that, in general, only small manufacturers refuse to make spare parts and technical information available to it directly. OFT calculations would suggest that these

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<sup>9</sup> Although the OFT has received evidence of some concerns regarding brown goods.

manufacturers account for a relatively small minority of the white goods market.<sup>10</sup>

2.4 However, the OFT notes that it has received relatively few complaints from independent repairers and certainly fewer than might have been expected if restrictions significantly impeded the ability of independent repairers to complete repairs. In addition, the OFT's examination of spare parts providers' websites, including Connect Distribution which supplies well over two million spare parts per year,<sup>11</sup> would tend to suggest that a wide range of spare parts is available to independent repairers from a wide range of manufacturers.<sup>12</sup>

2.5 The OFT has more limited information regarding spare parts costs. However, most of the trade associations representing repairers which the OFT has spoken to have not raised concerns regarding spare parts pricing. In addition, eSpares, a spare parts distributor, for example, has indicated that the five most common spare parts for a dishwasher could be purchased for a total cost of £12.96, a relatively low cost.<sup>13</sup> In

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<sup>10</sup> Calculations are based upon information from Mintel, 2010, *White Goods, Market Intelligence*. However, some of these manufacturers' market shares are too small to be separately recorded so a total market share figure for those manufacturers is not available.

<sup>11</sup> Its website can be found at: [www.connect-distribution.co.uk/cgi-bin/home.pl](http://www.connect-distribution.co.uk/cgi-bin/home.pl). Connect Distribution granted the OFT access to the section of its website where spare parts can be purchased.

<sup>12</sup> Connect Distribution stocks around 120,000 stock lines and distributes for over 100 original equipment manufacturers. The OFT notes that, at least for some manufacturers, Connect Distribution also provides technical information in the form of exploded diagrams (referred to as an integrated mediator on its website).

<sup>13</sup> eSpares, January 2011, *Buyer beware, A report on Household Appliance Extended Warranties in the United Kingdom*, pages 10-11. The OFT recognises that eSpares is a supplier of spare parts to consumers, rather than to independent repairers. Repairers are likely to have to conduct repairs which require more complex and costly spares. However, the £12.96 figure does include some spare parts for repairs such as door locks and spray arms which may be conducted by independent repairers.

addition, one manufacturer has indicated that apparently higher prices for spare parts can reflect the high costs associated with the production and storage of individual spare parts.

- 2.6 To gain a more comprehensive understanding of the extent and nature of restrictions the OFT would be required to conduct significant further detailed work and analysis. This could include, for example, a resource intensive independent repairer survey. In addition, determining whether the costs for particular spare parts are excessive would require detailed analysis by the OFT, and would require the provision of substantial cost information by manufacturers. To decide whether this use of resources would be appropriate the OFT has considered the potential impact of any restrictions.

### **Impact of any restrictions**

- 2.7 The OFT's overall conclusion is that there is limited evidence of restrictions on competition for DEGs repairs and that any resulting consumer harm is likely to be small for the following reasons:
- There is **no evidence that manufacturers have foreclosed the market for DEGs repairs** by imposing restrictions on independent repairers' ability to access spare parts or technical information. The OFT has received evidence from a manufacturer, a retailer and an insurer, all of which indicates that independent repairers conduct a significantly larger percentage of chargeable repairs<sup>14</sup> than manufacturers. Indeed, evidence seen by the OFT indicates that whereas manufacturers conduct approximately less than 20 per cent of chargeable repairs, independent repairers conduct over 40 per cent of them.<sup>15</sup>

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<sup>14</sup> Chargeable repairs are those repairs where a consumer incurs a charge, rather than repairs under manufacturer or extended warranty, where the warranty provider incurs the charge. The OFT has received some concerns regarding repairs conducted under manufacturer warranties. However, in the absence of significant concerns and to ensure the scope of the project remains manageable, it has not considered them in detail.

<sup>15</sup> Other repair methods include retailers and self-repairs.

- There is **no evidence that excessively priced spare parts** mean that independent repairers are unable to compete with manufacturers for DEGs repairs. Indeed, evidence from Which? indicates that independent repairers, on average, quoted about 40 per cent less for conducting certain common DEGs repairs than manufacturers.<sup>16</sup> Although Which? focused on common repairs, this is consistent with comments that the OFT has received from a trade association representing repairers which noted that manufacturers quote higher repair charges than local independent repair companies.
- There is a **substantial generic (non-manufacturer produced) parts market** for the most common spare parts. One large party which conducts repairs told the OFT that some 33 per cent of the parts which it fits are generic parts.<sup>17</sup> This would suggest that generic parts are a viable alternative to manufacturer parts for a significant proportion of the most common spare parts.
- That restrictions were more apparent **for smaller manufacturers**, whose products affect relatively fewer consumers (see paragraph 2.3).
- Although the OFT has limited evidence on this issue, there may be consumer benefits associated with some restrictions, for example restrictions on the provision of technical information to non-qualified

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<sup>16</sup> Which? November 2010, *Where to get cheap repairs*. Which? obtained quotes for common repairs of domestic appliances from both manufacturers and independent repairers. The OFT's calculation regarding average repair charges is based upon repair charges for repairs involving the fitting of a spare part and for those DEGs included within the scope of the OFT's market review (a cooker, a fridge and a washing machine); there was no evidence to suggest that independent repairers provided a poorer quality service; indeed, according to a Which? survey of 1,610 members in August 2010 customer satisfaction levels for work completed by independent repairers were significantly higher than that completed by manufacturers.

<sup>17</sup> That party also noted that it was aware that generic parts were available for other parts where it currently uses branded parts.

repairers to ensure that repairs are conducted in an effective and safe manner.

- There is evidence of **significant local competition** for repair services. In Oxford, for example, a search of directory information revealed that there were:
  - 66 providers of repairs and parts for electrical appliances
  - 21 providers of repairs and parts for televisions, DVD players and video cassette recorders.<sup>18</sup>

2.8 The OFT is aware of concerns that any restrictions imposed by manufacturers on spare parts and technical information, and excessive pricing of spare parts, are intended to encourage consumers to replace DEGs rather than have them repaired so that manufacturers can maximise sales in the higher value primary market. This could possibly lead to unduly high levels of replacement and unnecessary wastage.

2.9 The OFT has received evidence that, in any event, many consumers do not consider repairing DEGs, preferring instead to upgrade them for products with higher specifications and greater functionality. Indeed, research by one major industry party indicated that as many as 40 per cent of consumers did not consider repair once their DEG had broken down, preferring instead to purchase a new product. This is particularly the case for brown goods where technological innovation has been most significant and where declines in the retail price of DEGs have been greatest.<sup>19</sup>

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<sup>18</sup> Research undertaken using Yell.com in March 2011. The same large range of repairers was found in other districts which the OFT considered.

<sup>19</sup> Verdict, February 2011, *UK electricals 2011*, page 36.

## Whole life costing

2.10 When considering aftermarkets the OFT generally looks at whether consumers can accurately predict the whole life cost of the primary product (in this case the DEG). Where the primary market is competitive and consumers engage in whole life costing, competition concerns are less likely to arise.<sup>20</sup> Early evidence provided to the OFT suggests that consumers do not accurately predict the whole life cost of DEGs when buying the primary product. In particular, as noted by several parties, consumers do not have sufficient information to engage in accurate whole life costing as authoritative information on DEGs reliability and repair costs is not generally available.<sup>21</sup> Manufacturers have tended to argue that this reflects the fact that reliability is determined by how the DEG is used, which will vary by consumer. The OFT has not considered this issue further given the its overall findings that any restrictions do not appear to significantly impact on competition for DEGs repairs.

## Prioritisation decision and conclusions

2.11 In the light of the above findings, the OFT considers that a market study into DEGs repairs is not an administrative priority for the OFT. This is because the impact and strategic significance to the OFT of such a study is outweighed by the risks and resource requirements. The key factors which are relevant to this assessment are shown in table 2.2 below.

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<sup>20</sup> See paragraph 4.2 of the OFT's invitation to comment for further information on issues which are relevant to considering competition in aftermarkets.

<sup>21</sup> Which? does provide some information on reliability of various DEGs brands. However, this is only readily available to subscribers of Which?.

**Table 2.2: Prioritisation assessment for a possible market study of DEGs repairs**

Prioritisation factor	Analysis
Impact	Limited evidence of harm to competition and consumers
Strategic significance	No compelling strategic reason to conduct a market study
Risks	Market study unlikely to lead to a successful outcome for consumers given limited evidence of harm
Resources	Significant ongoing resource requirement, for example to assess whether spare parts are excessive (see paragraph 2.6)

2.12 However, the OFT has observed that there are actions that could be taken to help the DEGs repairs market function more effectively. These are set out below.

- **The OFT encourages consumers to shop around** to get the best deal for DEGs repairs. As mentioned at paragraph 2.7, Which? found that there are significant differences in repair prices between manufacturer and independent repairers. Which? also found that there were significant differences in repair costs between independent repairers. For example, from Which? research conducted in January 2010:

  - quotes from independent repairers for the same repair to a fridge freezer ranged from £118 to £302, and

- quotes from independent repairers for the same repair to a dishwasher ranged from £80 to £200.<sup>22</sup>
- **The OFT encourages consumers to carefully consider repairing DEGs, rather than replacing them.** Repairing DEGs may be more cost-effective than consumers may think. Which? information, for example, indicates that, depending on the product, consumers could save 'hundreds of pounds' by repairing rather than replacing a DEG.<sup>23</sup>
- The OFT encourages **manufacturers to publish further detail on their websites on their policies regarding the supply of spare parts and technical information.** This would increase independent repairers' understanding of manufacturer policies but would also enable independent repairers to challenge more effectively any refusal to supply if it was not consistent with published criteria. **The OFT also notes the concerns expressed regarding delivery times for spare parts and encourages manufacturers to provide sufficient information on estimated delivery times to repairers to enable them to plan repairs more effectively.**
- The OFT notes that consumers appear to have limited information regarding DEGs reliability to assist them in making an informed choice of DEGs. **The OFT encourages manufacturers to consider whether a standard measure of DEGs reliability could be adopted** which would enable consumers to compare more readily reliability between models.
- The OFT is aware that the Department of the Environment, Food and Rural Affairs (DEFRA) is conducting research on extending the

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<sup>22</sup> Which?, April 2010, *Repair or Replace*. Which? obtained quotes from 99 repairers for the repair of the fridge freezer and 150 repairers for the repair of the dishwasher.

<sup>23</sup> Which?, May 2009, *Repair or Replace* and Which?, April 2010, *Repair or Replace*.

lifetimes of DEGs, amongst other products.<sup>24</sup> The OFT will liaise with DEFRA on actions from that project which could assist consumers to take a more informed choice when purchasing DEGs.

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<sup>24</sup> Once completed, the DEFRA research will be published here:  
[www.defra.gov.uk/environment/economy/products-consumers/](http://www.defra.gov.uk/environment/economy/products-consumers/).

### 3 EXTENDED WARRANTIES

#### Background

- 3.1 In 2003 the CC found that there was relatively little competition on the pricing of EWs, noting that:
- Prices set by retailers at the POS appeared to be set at levels that consumers would bear rather than in the light of competition.
  - Prices did not appear to reflect variations in underlying costs or risks.
  - Larger retailers' return on capital on EWs persistently and substantially exceeded their cost of capital, indicating that EW prices were generally higher than necessary to cover costs and generate an adequate return. Indeed, the CC concluded that EW prices would be one third lower in a competitive market.
- 3.2 The CC also found that providers of EWs at POS have a competitive advantage over those who do not have access to consumers at the POS. In particular:
- Few consumers sought information on EWs prior to their purchase.
  - Consumers had little opportunity at the POS to consider alternatives to the EW on offer at the POS.
  - Generally, no information was available at the POS on prices, or terms and conditions, of EWs available from alternative providers.
- 3.3 To address these concerns, the Supply of Extended Warranties on Domestic Electrical Goods Order 2005 (the EW Order) was made. This included requirements relating to better information for consumers and improved cancellation rights.

- 3.4 The full text of the CC's report is available on the CC website.<sup>25</sup> Further details about the EW Order are available on the OFT's website.<sup>26</sup>
- 3.5 The OFT commissioned an evaluation of the EW Order in October 2007. The evaluation reported in 2008<sup>27</sup> and found that:
- There had been at least some changes in consumer shopping patterns, with more consumers purchasing DEGs away from POS and slightly more consumers shopping around. However, 68 per cent of consumers were still purchasing EWs at the POS which, although slightly diminished from 82 per cent in 2002, still represented the large majority of sales. In addition, two-thirds of the reduction in the proportion of EWs sold at POS was accounted for by manufacturers providing more free EWs, rather than significantly more consumers actively shopping around and deciding to purchase from a non POS provider. Indeed, the OFT notes that only 15 per cent of EW purchasers shopped around to compare EW offers from different providers.
  - There was evidence that some stores were not fully complying with the EW Order.<sup>28</sup>
  - At that stage the EW Order was addressing, based upon a conservative estimate, only £18.6m per year of the £366m annual detriment from restrictions in competition. However, the evaluation

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<sup>25</sup> At: [www.competition-commission.org.uk/inquiries/completed/2003/warranty/index.htm](http://www.competition-commission.org.uk/inquiries/completed/2003/warranty/index.htm).

<sup>26</sup> At: [www.offt.gov.uk/shared\\_offt/monopolies/extendedwarrantiesondomesticelec](http://www.offt.gov.uk/shared_offt/monopolies/extendedwarrantiesondomesticelec).

<sup>27</sup> OFT 1024, October 2008, *Evaluating the impact of the Supply of Extended Warranties on Domestic Electrical Goods Order 2005*, Prepared for the Office of Fair Trading by LECG.

<sup>28</sup> Following that evaluation the OFT wrote to stores that did not appear to have complied with the EW Order and has subsequently worked closely with retailer representatives to ensure that stores that sell DEGs were aware of their obligations.

considered that it was possible that the impact of the EW Order had not yet materialised.

### **Current overview of evidence**

3.6 The OFT has received additional evidence regarding the level of competition in the market for EWs. There are more providers in the market for EWs than there were in 2003, including more utility providers and supermarkets, which may suggest enhanced competition.

3.7 However, there is also evidence that there are continuing competition concerns. In addition to the findings of the impact evaluation, which did not suggest that there had been significant improvements to competition, the OFT has received the following concerns:

- The OFT has received comments from some parties that, whilst the EW Order has increased transparency in the market, the retailer POS advantage remains strong and, with the exception of Domestic and General, the non POS market remains substantially underdeveloped.<sup>29</sup> In particular, the OFT has been informed that the level of the POS advantage means that it remains difficult for a non POS provider to compete effectively with established POS providers.
- Some parties have claimed that EW profitability remains high, with one indicating that profitability has 'been largely unaffected' since the imposition of the EW Order.
- Some parties have claimed that EWs do not represent good value for money given the high levels of reliability of DEGs generally.

3.8 The OFT has also considered trends in pricing of EWs since the CC reported. The impact evaluation reported that EW prices, overall, had

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<sup>29</sup> Some parties have also referred to the Datamonitor, July 2010, *UK Extended Warranty Insurance 2010* which suggested that 85-90 per cent of EWs are sold at the POS based upon discussions which Datamonitor had with industry participants.

remained static and were likely to have fallen in real terms.<sup>30</sup> However, it did not suggest that prices had declined significantly since the EW Order was put in place. This is significant given that the CC concluded that EW prices would have been one third lower if the market was more competitive.

3.9 The OFT notes that EW pricing is complex:

- According to some EW price lists for the major EW providers, whereas prices for some EWs have declined since 2002/2003, particularly EWs on lower value DEGs, EW prices on other higher value DEGs have often remained broadly stable or otherwise increased in real terms.<sup>31</sup> However, the OFT recognises that to obtain a more complete view of EW pricing, it is important to obtain information on the prices that consumers actually pay, rather than changes in price lists.
- The picture has also been complicated by the introduction of pay as you go (PAYG) warranties where consumers pay for the EW on a monthly basis with the option to cancel them at any time, rather than committing to a longer term warranty. This means that it is not possible to know what prices consumers actually pay in practice until the OFT has robust information on the length of time for which consumers actually retain PAYG products.

3.10 Whilst the OFT has come to no conclusion on the effectiveness of competition in this sector at this stage, the OFT's preliminary analysis suggests:

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<sup>30</sup> OFT Impact evaluation, paragraph 9.1.

<sup>31</sup> This is based upon a high level analysis which considered EW price lists for televisions, fridge freezers and washing machines at several major EW providers. The OFT is aware of one retailer which has reduced its EW prices significantly since 2005.

- there is little evidence of substantial changes in consumer behaviour, particularly that significantly more consumers are actively shopping around to get the best EW deal
- that the significant detriment arising from restrictions in this market may not have been adequately addressed by the EW Order, and
- that it appears unlikely that there has been a significant reduction in pricing levels since the CC reported such that EWs are now priced at a competitive level.

3.11 The OFT therefore considers that there is sufficient evidence to justify a short and tightly focused market study to consider the effectiveness of competition in this sector.<sup>32</sup> It also considers that such a market study is a priority for the OFT because its impact and strategic significance to the OFT outweighs the risks and resource requirements of such work. The key factors which are relevant to this assessment are shown in table 3.1.

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<sup>32</sup> The OFT notes that it would have been possible to launch a review of the EW Order under section 88(5) of the Fair Trading Act 1973. However, the OFT notes that none of the respondents indicated that the EW Order should be revoked or varied, or identified any changes of circumstances of the type which such a review would consider.

**Table 3.1: Prioritisation assessment for an EWs market study**

<b>Prioritisation factor</b>	<b>Analysis</b>
Impact	Significant historic detriment and evidence of continuing concerns. Market affects large number of consumers. For example, an estimated 25 per cent of white goods are purchased with an EW. <sup>33</sup>
Strategic Significance	OFT best placed to act given previous experience of the sector and the competition issues raised
Risks	Likelihood of successful outcome, allowing the OFT to consider if there is a need for further action to benefit consumers
Resources	Short market study has limited resource requirement

### **Scope of the short, tightly focused market study**

#### **Product scope**

3.12 The OFT's invitation to comment limited the scope of the DEGs market review to specified brown and white goods (see footnote 3 – hereafter specified DEGs). However, in addition to the specified DEGs, the OFT's short market study into EWs will also include all goods which are designed to be connected to an electricity supply or powered by

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<sup>33</sup> Datamonitor, July 2010, *UK Extended Warranty Insurance 2010*, page 2.

batteries and used for domestic purposes.<sup>34</sup> It will therefore include, amongst other things:<sup>35</sup>

- all **white and brown goods**, including microwaves, radios and satellite systems
- **grey goods**, including PCs, laptops, mobile telephones and MP3 players
- **small domestic appliances**, including kettles and toasters
- **photographic equipment**, and
- **gardening equipment**

3.13 Although information available to the OFT suggests that white and brown goods account for a majority of EW sales,<sup>36</sup> it considers that it would be inappropriate to exclude EWs on other DEGs from the scope of the short market study for the following reasons:

- Those parties which have raised concerns about the functioning of the EW market have not differentiated between the specified DEGs, and other DEGs.
- Although there are some differences in the sales process between various DEGs, the key issues which have given rise to competition

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<sup>34</sup> Excluding watches, jewellery or fixed installations (other than integrated appliances). This was the definition of a DEG used in the EW Order.

<sup>35</sup> See page 8 of [www.berr.gov.uk/files/file29110.pdf](http://www.berr.gov.uk/files/file29110.pdf) for a more comprehensive listing.

<sup>36</sup> Datamonitor, July 2010, *UK Extended Warranty Insurance 2010*, page 21. Datamonitor estimates that over three quarters of the EW market is accounted for by EWs on brown and white DEGs (although its definition of brown goods, in particular, includes products other than the specified DEGs). Domestic and General, the UK's largest EW provider, notes that its top selling five EWs are on televisions, washing machines, dishwashers, fridge freezers and cookers (see [www.domgen.com/](http://www.domgen.com/)).

concerns (such as the retailer POS advantage) remain consistent across DEGs generally. The outcomes of the market study are also likely to be relevant across DEGs generally.

- Historic competition concerns regarding EWs have applied across DEGs rather than to the specified DEGs.<sup>37</sup>
- Many products which were not included within the specified DEGs, particularly grey goods, form part of significant and dynamic markets which affect large numbers of consumers.<sup>38</sup>
- Some parties have found it difficult to provide information by reference to the specified DEGs, given that their internal information systems do not identify information by reference to those DEGs. This has meant that they have tended to provide information for EWs across all DEGs or for a different subset of DEGs to the specified DEGs. The revised scope should therefore more accurately reflect how parties hold data regarding EWs and facilitate information gathering.

### Issue scope

3.14 To ensure that the short market study is efficiently delivered, the OFT is tightly focused on what it considers to be the key competition issues and indicators in the market. These are:

- The **structure of the EW market**, particularly the extent to which the POS advantage persists.
- The **extent of competition between EW providers**.

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<sup>37</sup> The OFT notes that both the OFT's 2001 market study and the CC's 2003 report highlighted concerns across DEGs, rather than to a particular subset of them.

<sup>38</sup> For example, according to Verdict, February 2011, *UK Electrical Retailing 2011*, pages 52 and 54, in 2009 consumers spent over £5billion on grey goods.

- **Consumer behaviour**, particularly the extent to which consumers shop around between EW providers, and the availability of information to consumers.
- The **pricing of EWs**, particularly trends in EW prices over time.
- The **profitability of EWs**, particularly focusing upon claims ratios as an indicator.<sup>39</sup>

3.15 The OFT notes that there is already substantial information available on many of these issues, not least in the 2008 impact evaluation. The OFT therefore considers that a short market study, which would focus upon providing an updated evidence base, is sufficient.<sup>40</sup> This will enable the OFT to efficiently and effectively consider whether there are any restrictions on competition in this sector, whilst limiting burdens on business of providing substantial new data.

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<sup>39</sup> For insurance type products, this is the ratio of net incurred claims as a proportion of net earned premium.

<sup>40</sup> Although some more historic information will be required on particular issues, particularly pricing.

## **4 POTENTIAL OUTCOMES OF A MARKET STUDY**

4.1 Market studies can lead to a range of outcomes. They may conclude that a market can be given a clean bill of health and that the initial concerns about consumer detriment are not substantiated by the information collected over the course of the study.

4.2 Where a market is found not to be working well, there are several options the OFT will consider to address the causes. These may include one or more of the following:

- improving the quality and accessibility of information for consumers (including consumer education and consumer guidance)
- recommendations to business, for example to take voluntary action (including recommending industry codes of practice or changes to existing codes of practice)
- recommendations to Government
- investigation and enforcement action against businesses suspected of breaching consumer or competition law or
- making a market investigation reference to the CC.

## 5 NEXT STEPS AND TRANSPARENCY

### Information gathering and next steps

- 5.1 To limit the burdens on business of providing information, the OFT will only be proactively requesting information from the major UK providers of EWs. However, the OFT would very much welcome comments and evidence from any other party on any of the issues within the scope of this short market study. **Any such comments or evidence should be provided to the OFT by 7:00pm on 6 May 2011.** Please respond in writing to the following address or by email to [degs@oft.gsi.gov.uk](mailto:degs@oft.gsi.gov.uk)

The DEGs Team  
Room 2S/23  
Consumer and Goods Group  
Office of Fair Trading  
Fleetbank House  
2-6 Salisbury Square  
London  
EC4Y 8JX

- 5.2 The OFT thanks all of those parties which provided information in response to the invitation to comment. The OFT will use the information on EWs, alongside the further information it receives as part of this short market study, in forming its conclusions.<sup>41</sup>
- 5.3 Further details on the OFT's approach to market studies can be found in the market studies guidance document on the OFT website.<sup>42</sup>

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<sup>41</sup> More detail on the usage of information provided during the market study can be found on page 3 of this document.

<sup>42</sup> The OFT's market study guidance can be found at:  
[www.oft.gov.uk/shared\\_oft/business\\_leaflets/enterprise\\_act/oft519.pdf](http://www.oft.gov.uk/shared_oft/business_leaflets/enterprise_act/oft519.pdf)

## Timing

- 5.4 The OFT is committed to efficient and effective project delivery. The OFT therefore intends to publish the findings of this short market study during the summer of this year.

## Transparency

- 5.5 The OFT is committed to working constructively and transparently with interested parties during the short market study. The OFT's website page on the DEGs market review<sup>43</sup> will be updated as the short market study progresses and will include, amongst other things, contact details for key team members and any updates published by the OFT during the market study.
- 5.6 Anyone wishing to obtain further information on this market study should contact Susan Oxley (Project Director) on 0207 211 8265 or Dan Moore (Team Leader) on 0207 211 5828.

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<sup>43</sup> Available at: [www.offt.gov.uk/OFTwork/markets-work/othermarketwork/electrical-goods](http://www.offt.gov.uk/OFTwork/markets-work/othermarketwork/electrical-goods).