

AUTOMOTIVE AFTERMARKET WORKSHOP

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What is automotive aftermarket?

- The automotive aftermarket covers the repair, maintenance and servicing aspect of vehicles after being sold by an Original Equipment Manufacturer (OEM) to a consumer
- This includes the supply of parts, fitment and servicing

Relevant parties in aftermarket industry

- OEMs
- Insurers – short term insurance (servicing 30% of the market)
- Panel beaters
- Service centres
- Fitment centres
- Consumers

How the aftermarket industry operates in SA

OEMs –

- appoint panel beaters as approved service providers to repair or service own brands e.g. Toyota, BMW, etc.
- to control quality, service standards
- may be a limited number in an area
- may use an industry association to appoint

How the aftermarket industry operates in SA

Spare parts –

- Manufactured by OEMs or on behalf of OEMs (branded)
- OEM's warranty
- Distributed through a network of dealerships or OEM approved spare parts distributors
- Maintenance and repairs during warranty only done by authorized/approved service provider

How the aftermarket industry operates in SA

| Authorised channel | Independents |
|--|-------------------------------|
| Vehicles under warranty | After warranty lapses |
| 30% of the market (more lucrative) | 70% of the market |
| Approved parts | Non-OEM parts |
| Approved service providers in OEM's network e.g. panel beaters | Independent service providers |
| Insured | Largely uninsured |

Effect of current practices

- Complaints
 - Consumers compelled to use costly spare parts
 - Independent spare parts suppliers excluded (affects claims and warranty)
 - The process for approving service providers and the numbers in a specific area is not transparent (incl. insurers)
 - Approved service providers not allowed to source spare parts from independents – even if they are genuine parts

Effect of current practices

- Complaints
 - Service providers in a network compelled by OEMs to only use identified service providers for related services e.g. auditing, surveys
 - Customers compelled to take up a motor plan with the sale of a vehicle. True value of the car without the plan not transparent to consumers
 - Once service plan lapses, cost of servicing inflated (labour and parts)

Effect of current practices

- Complaints
 - Independents required to join associations to be appointed by OEMs and insurers – costly e.g. levies, surveys, equipment with no guarantee of work
 - Lack of transformation (restriction of access)

Effect of current practices on competition

- Research
 - Arrangements and agreements which may have the effect of substantially lessening or preventing competition – restrictive and exclusionary
 - Restriction of competition between authorized/approved channel and independents – limited choice for consumers and uncompetitive pricing
 - Barriers to entry high – deters entry
 - Customers locked in – service plans and motor plans

Findings from other jurisdictions

- Commission conducted research in other jurisdictions to inform its intervention/s in aftermarket
- Similar practices in other countries
- Successful interventions by competition authorities that have changed dynamics significantly
- Interventions involve firms that are active in South Africa that have changed their conduct in aftermarket elsewhere but not in South Africa

Findings from other jurisdictions

- Jurisdictions - EU, US, Russia, India, and others
- Interventions
 - Regulations
e.g. EU
 - Code of conduct
e.g. Russia
 - Enforcement
e.g. India

Findings from other jurisdictions

- Some significant changes in aftermarket include:
 - Independent repairers compete with authorized repairers
 - Vehicle owners have the right to use any repair shop for non-warranty during warranty period without losing warranty
 - Use of matching quality parts
 - Access to technical information

Findings from other jurisdictions

- EU
 - Intervention in aftermarket in 2010
 - Framework for rules in aftermarket
 - Authorised repairers/panel beaters obliged to also use matching quality parts
 - Vehicle owners can use any repair shop for non-warranty during warranty period
 - OEMs prohibited from making warranties conditional upon repair and service within approved network

Findings from other jurisdictions

- EU
 - Intervention creates a competitive landscape for independent operators
 - Attracts entry
 - Price pressure in the market
 - Increased transparency
 - Consumers benefit
- (based on research conducted by the European Automobile Manufacturers Association)

Findings from other jurisdictions

- China
 - Guiding principles issued in 2014
 - Recognition of same quality spare parts – mitigates against discrimination in the use of spare parts that are not manufactured by OEMs/approved suppliers
 - OEMs cannot abuse warranty provisions to restrict consumer choice
 - The authorized spare parts distributors allowed to re-sell the OEM parts to independents and consumers.

Findings from other jurisdictions

- China
 - From 2015, OEMs to publish auto maintenance and technical information for repair of newly launched vehicles to approved dealers and independents
 - Similarly to EU - intention to establish a fair and transparent aftermarket
 - Eliminate monopoly by authorized dealers

Findings from other jurisdictions

- US
 - Magnuson-Moss Warranty Act passed by Congress in 1975
 - governs consumer product warranties
 - Manufacturers to provide consumers with detailed information about warranty coverage
 - Prohibits vehicle manufacturers from refusing to honour warranties if parts manufactured by an independent are used or the repair work is done by an independent

Findings from other jurisdictions

- US
 - Onus on manufacturer to prove that damage to vehicle is caused by the repairer
 - Magnuson-Moss Warranty Act – pro consumers
 - Consumers free to use independents for parts and service

Findings from other jurisdictions

- Russia (FAS)
 - Code of conduct (self regulation) - concluded with various industry players including SA based firms
- France
 - Sector inquiry of 2012 – spare parts, maintenance and repairs
 - Recommendations include amending legislation to remove restrictions in the sale of spare parts e.g. to independents and sale of non-branded parts by approved parts manufacturers without breaching IP laws

Issues for further engagements

- Code of conduct
 - Safety
 - Liability
 - Quality
 - Transformation
 - and other

CC approach to address competition concerns in aftermarket

- Advocacy
 - Cost effective and better outcomes
 - Encourage dialogue among key stakeholders for an industry solution
 - Compliance in other jurisdictions by the same firms based in SA
 - Similar approach followed in other jurisdictions
- Enforcement remains an option