

CHAPTER 3

The supply and pricing of replacement body parts

Definitions

3.1. For the purposes of the reference, 'body part' means 'any body panel fitted to a motor vehicle as standard equipment when sold new' and 'replacement body part' means 'any body panel sold as complete or partial replacement for a body part' (see paragraph 1.1).

3.2. In thus specifying body parts (ie panels) for motor vehicles of all types, the reference was in agreement with the terms of the Director General of Fair Trading's statutory notice¹ which preceded the OFT investigation. In the event, OFT's report dealt only with cars and vans. We have followed the same path and disregarded panels for heavy goods vehicles (HGVs). The market for replacement panels for HGVs generally is very small. Ford estimated that such panels represented approximately 2 per cent (by value) of all sales of replacement panels for Ford vehicles, of all types.

3.3. Replacement panels are used either (a) to replace panels which have been damaged, usually in accidents, or (b) to replace panels which have corroded. As explained in paragraph 2.6 *et seq*, there are several types of body panels. In manufacture, there are two categories: full and part panels. In application, there are three categories: service part panels; crash part panels; and corrosion part panels.

Factors affecting demand

3.4. Crash part panels may be required for cars of any age. The Motor Conference² told us that approximately 70 per cent of car owners insured their vehicles comprehensively. It appeared to us that about 75 per cent of all crash repair costs would be paid by insurers. In practice, the proportion is likely to be somewhat lower, as drivers may refrain from claiming on their insurance in order to protect their no-claim bonuses.

3.5. The Motor Conference also told us that at present insurers had no standard against which they could assess the quality of a panel and they authorised repairs on the basis that the manufacturer's replacement equipment (RE) parts would be used in order to satisfy themselves that, in accordance with the indemnity provided under the policy, a car was returned to its pre-accident condition and its structural integrity maintained. A further problem for insurers was the effect the fitting of 'independent' panels³ might have on the continuity of manufacturers' warranties. Thus, at present, it is likely that in the order of 75 per cent of crash repairs (ie those paid

¹ See paragraph 1.1, OFT report.

² The Standing Joint Committee of the Accident Offices Association (AOA) and Lloyd's Motor Underwriters' Association (LMUA).

³ That is to say, not supplied by, or approved by the particular car manufacturer or importer; see 'independents' in the glossary.

for by insurers) should involve fitting car manufacturers' RE body panels. From what insurers told us, it was clear that they did not always know whether a car manufacturer's or an 'independent' panel had been used.

3.6. Repair costs arising from corrosion (apart from those covered by warranty) are paid for by the owner of the vehicle. Since 1967, when cars three years old or more became liable for MOT testing, there has been increased demand for repair or replacement of corroded parts. The extent of corrosion damage to a vehicle increases with the vehicle's age. A report by the Consumers' Association (CA) on corrosion in cars (based on a survey of 20,000 CA members, and published in the March 1983 issue of Which?) said of three-year-old cars: 'serious rust had not yet cropped up in the great majority of cars', but of six-year-old cars: 'half the cars of this age have some serious rusting. The front wings, door sills and doors seem to be the worst-affected areas'. The CA report also noted that a number of manufacturers gave anti-rust guarantees to purchasers of new cars. On 1 October 1984, Ford announced its own six-year anti-corrosion guarantee.

3.7. The demand for corrosion part panels is therefore likely to come mainly from the owners of older cars. Future demand for corrosion part panels will be affected by (a) improvements in the quality and protection of the bodywork of new cars, making them less prone to corrosion, and (b) changes in the age structure of all motor vehicles on the road. Figures from the Society of Motor Manufacturers and Traders showed that in December 1982 vehicles more than five years old accounted for 51 per cent of Ford Cortinas with current licences (taking all Marks together) and 52 per cent of Ford Escorts with current licences (taking all Marks together).

Size and nature of the market

3.8. The OFT report stated¹ that the total market for replacement body panels for Ford vehicles was worth between £35 million and £45 million a year, of which Ford's share was over 85 per cent. The OFT report also noted² Ford's estimate of its current annual domestic revenue from the sale of body panels at between £30 and £40 million a year. Our enquiries confirmed that the exact sales figure lay within this bracket. OFT estimated³ sales by the independents of body panels for Ford vehicles at between £5 million and £6 million a year. We accept the latter estimate and we have no evidence that the size and structure of the market have changed significantly since the OFT report was published.

3.9. In commenting on OFT's Tables 1 and 2,⁴ Ford noted that it was impossible, without knowing the part description and supplier's name, to say whether a particular part panel supplied by an independent corresponded exactly with a panel in Ford's range. The Trade Union Side of the Ford National Joint Negotiating Committee said that OFT had not always compared like with like and that it therefore followed that some of the price disparities noted were not based on accurate information. Although Ford

¹ See paragraph 3.17, OFT report.

² See paragraph 3.15, OFT report.

³ See paragraph 3.16, OFT report.

⁴ At pages 30 and 31, OFT report.

commented that the parts selected by OFT comprised a very limited selection of its wide range of panels, it did not suggest that it would be inappropriate to use the same items in order to provide more up to date information on price comparisons (see Tables 3.4 and 3.5 below); this we have done.

Sourcing

3.10. Ford obtains replacement panels for models currently in production from the same sources which supply original equipment (OE) parts for vehicle production. When production of a model ceases, Ford may choose to relocate the dies for producing panels, sending them to an outside supplier to use on Ford's behalf or to another Ford plant. For models which have been out of production for more than four years, about 50 per cent of all panels offered by Ford are at present made in this way. For certain panels it becomes uneconomic to maintain production in this manner and Ford invests in a once-for-all production known as an 'all time run' to cover anticipated demand for the part in the ten-year period after production of the model has ceased.

3.11. For its recently introduced range of corrosion part panels Ford is buying in panels from Van Wezel. We received evidence about the Van Wezel International Group of companies which comprises four companies in Belgium, two in the Netherlands, three in the FRG and one in the Irish Republic. One of the companies in Belgium and that in the Irish Republic manufacture corrosion part panels for motor vehicles. Total annual turnover in corrosion part panels is about £9 million, of which about 25 per cent represent sales to car manufacturers and the balance to the free market. Van Wezel has been supplying motor manufacturers with corrosion part panels for about eight years. Van Wezel sells corrosion part panels to seven major European car manufacturers; it started to supply Ford of Europe about six years ago. Van Wezel is believed to be the only group of companies in Europe which manufactures and supplies such panels to European car manufacturers.

3.12. Van Wezel has at present about 2,000 different types of corrosion part panels in its catalogue. They are sold without modification to car manufacturers and, through motor factors, to the free market. For sales to car manufacturers, their labels are attached to products rather than Van Wezel's own labels. Van Wezel's selection of products is entirely its own; it designs its own products (based upon the design of the original car) and tools up at its own expense. It enters the market for a particular model of car about four years after that model came on the market. Car manufacturers are said sometimes to notify Van Wezel in advance as to which part of a new model is expected to be most subject to corrosion.

3.13. Independents obtain supplies partly from their own manufacturing activity in the United Kingdom, partly by buying in from other United Kingdom suppliers, and partly by direct imports, the proportions varying between companies. Complete body panels are more frequently imported, while part panels are more often made in the United Kingdom. Some information on the proportion of supplies that is directly imported has been

provided by the Motor Panel Manufacturers & Distributors Association (MPMDA) and Melbros and is shown in Table 3.1:

TABLE 3.1 Sales of directly imported panels* as percentage of total sales

<i>Company</i>	<i>Part panels</i>	<i>per cent Complete body panels</i>
Erik Veng (UK)	75	90
Melbros	5	15
Saltfix	4	90
Northern Interpart	n/a†	100
PWB Engineering	12	80
LMC Panels	16	87
'Pop-On' Body Spares‡		60
County Sheet Metal Products‡		45
Magnum Car Panels‡		35
Panel-On (Bristol)		0

Source: MPMDA and Melbros.

* In some cases, panels bought in from other United Kingdom suppliers may have been imported.

† This company does not deal in part panels.

‡ Information for part and complete body panels is not available separately.

Distribution arrangements

3.14. Ford supplies all replacement body panels via its Parts Distribution Centre at Daventry and its United Kingdom dealer network of some 400 main and 750 retail dealers. Ford main dealers stock parts (including panels) not only for their own workshops, but also for supply to Ford retail dealers, independent repairers, fleet operators, and the retail public.

3.15. Main dealers order direct from Daventry, and undertake to comply with Ford's stocking recommendations so as to ensure that parts are readily available. If a dealer requires a panel which is not in his stock or on order, he can make use of a 'vehicle-off-road' (VOR) procedure, which aims to supply the main dealer within 24 hours. If a panel for a VOR order is not in stock at Daventry, Ford has a procedure for picking panels for current production models from the production line. However, as the VOR procedure is intended for emergency use only, and is an expensive method of distribution for Ford, the dealer obtains a reduced level of discount to reflect the additional cost incurred by Ford in processing the order. Some of the independents told us that they occasionally supplied replacement panels to Ford main dealers.

3.16. Replacement body panels supplied by the independents are normally sold via motor factors and non-franchised garages. The Factoring Service Group (FSG), which represents 280 independent factoring companies with 500 outlets, told us that there were around 1,000 independently-owned motor parts wholesalers in the United Kingdom. In addition, there were perhaps 1,000 outlets of motor factor chain stores. The Motor Factors Association (MFA) has in membership about 85 factors with 1,100 outlets. Factors negotiate terms with the independents. In general, non-franchised garages repair all the popular makes of car. When a car is brought in for repair, the garageman examines the car to find what parts are required, and then telephones an order to his local factor. FSG told us that delivery usually took no longer than an hour.

Research, design, development and tooling

3.17. Ford told us that its replacement body parts activity could not be viewed in isolation from its 'total automotive business'.¹ That business comprises the design, engineering, manufacture and sale of Ford vehicles and of replacement parts for those vehicles. The design and engineering of Ford vehicles in Europe is carried out in several centres within Europe. Thus, for example, the design of the exterior body of Ford cars is carried out mainly by Ford in the FRG; the design of car interiors and of van and truck exterior bodies is carried out mainly by Ford in the United Kingdom.

3.18. Ford submitted evidence to us about its design and engineering processes and the investment it makes in those processes in terms of time, money, and skill. The following is a brief summary of Ford's design and engineering processes.

3.19. The design process begins some 68 to 70 months before the date on which it is planned to manufacture the first production model. Initially, the process involves only the broadest outline of the objectives which the vehicle is to be designed to satisfy. Design proceeds through various stages of styling renderings, 'tape drawings' and scale models until a full-size approved clay model is prepared. This model, after checking, serves as the datum from which subsequent engineering drawings are prepared.

3.20. In conjunction with the development of the approved clay model component engineers develop concepts for the functional systems of the vehicle.

3.21. The measurements obtained from the clay model are passed to the body engineering department. For post-1981 models, magnetic tape and computer-aided design techniques are used to produce drafts from which drawings of individual components (including body panels) are prepared (for pre-1981 models, the measurements from the clay model were plotted manually by the draftsman). It is from these drafts and drawings that tooling models are produced. Tooling models, also known as base or die models, are themselves used for the production of press tools and dies needed for manufacture of shaped body parts.

3.22. Vehicle testing and development is carried out in parallel to component development work. Mechanical prototypes are produced to determine the basic dynamic qualities of the vehicle—ride, handling and steering.

3.23. Full prototype vehicles which fully represent the appearance of the final model are produced using prototype tooling (which is simpler in construction than production tooling but of limited life) and many hand-finishing operations, and are used to validate all aspects of design, including durability, crash performance and compliance with national regulations.

3.24. Tooling is required to convert a flat metal sheet into a shaped body part. The tooling used consists of dies fitted to presses. The first stage in die design and production is to determine whether it is feasible to manufacture the part; such considerations may require alterations to the clay model. For a part unique to a particular design it is necessary to produce a three-dimensional model of the part's surface in model-making material.

¹ See also paragraph 5.4.

From this three-dimensional model an engineering drawing can be made of the dies required. Dies are subsequently produced and tested. Ford told us that development and testing for a major sheet panel could take as long as six months.

3.25. The design and engineering processes described in paragraphs 3.17 to 3.24 are carried out mainly in the United Kingdom and the FRG. Some vehicle testing is carried out in Belgium. Some general research applicable to Europe is also conducted in the United States.

3.26. The Ford product development expenditures which have been incurred in the United Kingdom and the FRG over the last four years are shown in Table 3.2:

TABLE 3.2 Ford product development expenditures* by country of origin

	1980	1981	1982	£ million 1983
United Kingdom	79.8	84.5	91.2	111.0
FRG	73.6	83.0	84.9	91.8
	<u>153.4</u>	<u>167.5</u>	<u>176.1</u>	<u>202.8</u>

Source: Ford.

* Expenditures exclude tooling and relate to design, engineering, testing and development.

3.27. These expenditures are allocated to Ford affiliates on the basis of their estimated share of forecast production. The share of these costs allocated to Ford in the United Kingdom is shown in Table 3.3:

TABLE 3.3 Allocated product development costs

	1980	1981	1982	£ million 1983
Ford (United Kingdom)	82.9	76.8	68.2	73.3
Car and van only	46.4	47.7	44.8	51.5

Source: Ford.

3.28. A considerable proportion of Ford body parts used in the United Kingdom is imported for assembly into OE production and to supply the RE market. In 1983, Ford imported body panels the landed value of which was £37.5 million, of which 25 per cent were for the RE market.

Ford's research and development (R & D)

3.29. Ford charges all R & D expenditure to the accounts of the year in which such expenditure is incurred, as indicated by note 2 of its statutory accounts for 1983. Over the five years 1979 to 1983, Ford's statutory accounts show that the total amount charged in respect of R & D was £377.6 million, an average of £75.5 million per annum. The annual cost over the five years has remained steady, with the highest charge of £82.9 million occurring in 1980.

3.30. The budget for R & D is not divided between particular models of vehicles. When product programme costs are being prepared, engineering

and other design costs are estimated in parallel and aggregated to form a composite budget. The composite figure then becomes part of the financial budget in accordance with which managers have to control their costs.

3.31. No allocation of R & D costs is specifically made to body parts or to vehicles. Therefore standard costs for body parts do not include any element of the costs of R & D, such costs being treated as part of general overheads. We were also told by Ford that it did not have a policy whereby R & D costs, or any other costs, were included as specific elements of the selling price calculated to recover such costs within a specific volume of sales or period of time.

3.32. At our request, Ford agreed to attempt to allocate the costs of its total automotive business¹ as between reference goods and its other automotive products, although it pointed out that it had never previously carried out such an exercise. Ford said that in its view the results of that exercise could not be regarded as a guide to the profitability of its reference goods (nor would it be possible to devise a method which would provide such a guide) because:

- (a) it was not possible to produce meaningful profit figures for only part of Ford's total automotive business, because revenue was earned in one part of that business (in this case, its reference goods activity) only because of the existence of another part of that business (in this case, its new vehicle business); and
- (b) any such exercise would require substantial subjective judgment in allocating to reference goods some part of the costs of Ford's total business, including an arbitrary selection of a base or bases for allocating substantial items of cost which were logically unallocatable.

Nevertheless, Ford carried out the exercise.

3.33. Having taken account of Ford's reservations, we decided to make no use of the results of the cost allocation exercise. We are nevertheless grateful to Ford for having undertaken these calculations.

Pricing policy for replacement panels

3.34. Ford told us that its pricing policy for replacement panels was governed by several factors which did not include costs. First, the need to ensure that prices for Ford replacement panels were broadly in line and competitive with those of other vehicle manufacturers for comparable parts; if they were not, Ford vehicles would gain a reputation for being expensive to repair and insurance ratings for Ford vehicles would be adversely affected. Secondly, Ford prices were set to ensure that the price of a particular Ford part was not markedly different from the price of the same Ford part in other countries, so as to discourage parallel importing or exporting. Thirdly, Ford had to consider price competition from the independents. Finally, parts pricing was influenced by the need for the total business to remain profitable. When introducing a new model, Ford told us, replacement parts' prices generally bore a close relationship to those of the car which it was replacing (eg the Cortina, in the case of the Sierra).

¹ See paragraph 5.4.

3.35. MPMDA told us that most of its members would set prices on a cost plus basis, having regard to the prices charged by other independent panel manufacturers and distributors. Ford prices would not be considered, since in many cases Ford did not sell an equivalent part; where Ford did sell such a part its price would be too high for the market which the independents supplied. Melbros (which is not a member of MPMDA) told us that it set prices of its replacement panels by reference to their costs subject to a fixed mark-up on material, labour and overheads etc. Prices were not, Melbros said, set by reference to those charged by Ford for equivalent panels.

3.36. Ford acknowledged that the existence of competition from independent suppliers was a factor which it took into account in setting its own prices and a factor which might, on occasion, cause it to reduce its prices or to increase them by amounts less than it would otherwise wish. Ford told us that the price reduction in the Cortina Mk3 wing (from £54.76 to £38.46) in February 1983 was a response to competition from independents, which had left Ford with unduly high inventories.

3.37. Ford also told us that, after discussions with LMUA about possible increases in insurance group ratings¹ for Ford vehicles, the Fiesta (1977 model) wing retail price had been reduced from £34 to £29.04.

Corrosion part panels

3.38. In September 1984, Ford told us that it was in the course of introducing a new range of 103 corrosion part panels.² Ford also told us that of the items listed in OFT's Table 2³ only one, the front footwell for the Escort Mk1,⁴ was to be excluded from its proposed range; Ford considered the use of this panel to be unsafe.⁵

3.39. Consistent with Ford's normal practice on the introduction of a new range of parts, Ford's introduction of corrosion part panels in February 1984, and the extension of the range later that year, was preceded by letters to main dealers informing them of the panels which had become available and inviting dealers to establish their requirements and submit orders to Daventry. Although it was not possible for Ford to provide an accurate estimate of its sales of corrosion part panels, it thought that sales of between £100,000 and £150,000 per annum⁶ should be possible in a full year if the independents continued to sell such panels. Ford had not (up to October 1984) followed up the letters to dealers with any specific marketing initiatives but told us that it planned, once its full range was

¹ We were told by the Motor Conference that there were two grouping systems used by insurers. AOA (insurance companies) have nine rating groups whilst LMUA (Lloyd's syndicates) have seven published groups, with an additional ten groups available 'on application' to the underwriter concerned.

² See paragraph 2.10.

³ At page 31, OFT report.

⁴ The fifth item in our Table 3.5.

⁵ See also footnote to paragraph 5.38.

⁶ This compares with an estimated annual turnover in excess of £3 million worth of 'independent' corrosion part panels for Ford vehicles.

available, to increase its promotional activities for corrosion part panels. It also told us that to mid-October 1984 it had sold around 4,500 such panels.

Current prices

3.40. The OFT report (at Table 2, page 31) showed prices of selected corrosion part panels (such as rear lower corners and rear wheel arches) supplied by certain independents alongside the Ford price of the panel to which the corrosion part panel related. Tables 3.4 and 3.5 indicate the prices in September 1984 of the panels (including corrosion part panels) itemised in OFT Tables 1 and 2.¹ The prices of the independents shown in Tables 3.4 and 3.5 are those of the three largest independents, whereas the OFT tables showed the prices of one of these suppliers. The major change since December 1983 has been the introduction of corrosion part panels by Ford (see Table 3.5).

¹ At pages 30 and 31, OFT report.

TABLE 3.4 Prices for selected full, service part or crash part panels, September 1984

<i>Model</i>	<i>Part</i>	<i>Melbros (factor price)</i>	<i>Saltofix (factor price)</i>	<i>Erik Veng (factor price)</i>	<i>Average independent price</i>	<i>Ford (dealer net price)</i>	<i>Ford less average (comparison of the two previous columns) (to the nearest £)</i>
		£	£	£	£	£	£
Escort Mk1	Front wing (4-door)	15.95	15.00	15.25	15.40	18.47	3
	Bonnet	33.85	29.75	33.85	32.48	29.77	-3
	Door skin (2-door)	8.50	4.66	7.30	6.82	23.27	16
Escort Mk2	Bonnet	36.95	32.20	36.30	35.15	41.09	6
	Front wing	20.45	20.90	21.25	20.87	32.83	12
Cortina Mk3	Full sill (2-door)	3.40	3.19	3.15	3.25	5.77	3
Granada Mk1 Mk2	Front wing	*	40.85	46.05	43.45†	53.32	10
	Front wing	*	39.60	44.65	42.13†	51.00	9
Fiesta	Front wing	14.15	11.15	13.50	12.93	18.90	6
	Full sill	*	*	4.35‡	n/a	5.62	n/a
Capri	Front wing (Mk 1)	37.65	37.00	38.50	37.72	38.86	1
	Front wing (Mk 2)	47.45	42.63	45.00	45.03	46.11	1
	Full sill	3.68	2.46	1.70‡	3.07†	6.40	3
	Rear centre valance	5.20	5.34	5.45	5.33	24.84	20
Transit	Front wing	34.00	33.55	33.50	33.68	48.12	14
	Twin wheel arch (long wheel base)	10.75	10.20	10.50	10.48	28.55	18
	Centre valance	6.50	7.70	5.75	6.65	25.44	19

Source: Melbros, Saltofix, Erik Veng, Ford.

Notes:

* Not supplied. † Average of 2. ‡ Full sill with extension not supplied; skin sill is alternative.

Independents supply at 'factor prices', which represent a discount of between 20 and 33 per cent off the recommended retail price. Ford supplies its main dealers at a 'dealer net price' which represents a fixed discount off the recommended retail price (the maximum price which Ford permits its dealers to charge).

TABLE 3.5 Prices of selected corrosion panels, September 1984

Model	Part	Melbros	Saltofix	Erik Veng	Average	Ford	Month
		(factor price)	(factor price)	(factor price)	independent	(dealer net	introduced by
		£	£	£	price	price)	Ford (1984)
Escort Mk1	Rear lower corner	3.10	2.82	3.75	3.22	2.69	Feb
	Rear wheel arch	1.95	1.85	1.70	1.83	2.43	Feb
	Suspension top plate (short)	1.10	0.85	0.85	0.93	1.64	Feb
	Sill with extension (2-door)	2.45	2.46	2.25	2.39	2.39	Feb
	Front footwell	*	2.15	2.87	2.51†	*	*
Escort Mk2	Rear lower corner	5.50	6.53	4.35	5.46	3.08	Aug
	Rear wheel arch	3.40	2.61	2.65	2.89	3.33	Feb
	Suspension plate (post-1977)	1.40	1.20	1.15	1.25	1.68	Feb
	Sill (2-door)	2.75	1.97	2.45	2.39	2.72	Feb
	Full sill (4-door)	4.04	1.79	4.00	3.28	2.72	Feb
	Rear valance	3.50	4.35	2.70	3.52	4.30	Aug
Cortina Mk3	Front wing repair panel	4.40	2.18	*	3.29†	‡	‡
	Rear lower corner	2.95	2.98	3.29	3.07	3.27	Feb
	Rear wheel arch to door shut (4-door)	1.80	1.85	1.83	1.83	2.93	Aug
	Ditto (section only)	0.90	*	*	n/a	‡	‡
Granada	Rear wheel arch	3.95	3.77	3.90	3.87	3.63	Aug
	Rear lower corner	4.95	3.63	6.23	4.94	3.75	Feb
Fiesta	Rear wheel arch	3.95	4.14	3.75	3.95	4.20	Aug
	Rear lower corner	2.40	2.33	2.41	2.38	2.58	Aug
Capri	Suspension plate	1.00	0.74	0.75	0.83	1.77	Feb
Transit	Rear door skin (part)	3.40	2.49	2.50	2.80	‡	‡
	Rear wheel arch (short wheel base)	3.95	5.54	3.50	4.33	3.88	Feb
	Door sill	1.75	1.73	3.00	2.16	2.89	Feb
	Skin sill lower (long wheel base)	3.30	4.36	3.60	3.75	‡	‡

Source: Melbros, Saltofix, Erik Veng, Ford.

* Not supplied. † Average of 2. ‡ To be introduced by end-1984.