

## **A Sector at the Cross Roads – A Doomsday Scenario for Independent Garages?**

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### **Background**

In a complex multi-faceted environment industry sectors are bound to undergo change. Much of this however has been in the form of incremental shifts with adjustments being made to existing industrial structures. Occasionally there is a change which leads to major realignments as evidenced with the upheaval in conventional High Street retailing e.g. Austin Reed and BHS.

The Retail Automotive Sector in the UK over the next few years is potentially facing forces that threaten to radically change not only its structure but also to question the future of the independent sector.

The independent sector has historically managed to exist alongside the franchised dealers in offering after sales services but the ability to do this has been based on the conventional technology of the internal combustion engine. With radical changes in power train technology and the increasingly bespoke configuration of new car engine systems the independent sector will be increasingly disadvantaged. It will become increasingly difficult to offer 'all makes servicing' as the specialised tooling and the computer diagnostic systems required will make it prohibitively expensive even with open access to technological information and tooling.

### **Increased Power to Manufacturers**

The change in power train technology towards Electric Vehicles (EV) and Fuel Cell Electric Vehicles (FCEV) means that the knowledge base needed to service these new vehicles will change. The technologies that have been developed over the previous hundred years will gradually become defunct as will the servicing capability of the existing retail automotive work force. With the manufacturers holding the knowledge base for the new technologies this will give a massive advantage to the franchised dealer networks. With the new technologies will come the need for new tooling and servicing equipment. This will add additional capital cost to the service operation which will only be offset by driving volume through the workshops. The future of car servicing is more likely to revolve around computer diagnostics and will be linked to the concept of the connected car. The manufacturers and the franchised dealer networks will control this 'connectedness' eliminating the independent sector from the equation.

The greater control that the manufacturer/dealer network will have not only with the customer but also with the car itself will make it not only costly for the independents to compete but also almost impossible to gain access to the information required to work on the car. It is argued that under the current Block Exemption Regulations manufacturers have to pass on this information at a reasonable cost. There are however issue over the sharing of Intellectual Property which can be excluded from this process. The new technologies will carry with them new patents that can be protected by the manufacturer.

The argument however comes back that there are millions of cars of the road that will provide for the independent sector going forward. The counter argument is based on the political drive both in the UK and Europe to reduce emissions.

The Climate Change Act (2008) made the UK the first country to establish a long term legally binding framework to cut carbon emissions. It contains a target requiring emission reductions of 80% by 2050. A wider legal landscape also exists spanning the UK, the EU and globally to address climate change. This was emphasised by the Transport Secretary Patrick McLoughlin who stated that, 'The UK is a world leader in the uptake of low emission vehicles and our long term economic plan is investing £600 million by 2020 to improve air quality, create jobs and achieve our goal of every new car and van in the UK being ultra – low emission by 2040.' In reality the only way that this could be achieved would be to introduce another scrappage scheme that would take older cars off the road. This alongside attractive PCP schemes would significantly reduce the age of cars on the UK roads. Whatever way the argument is shaped the future looks bleak for the independent garage sector.

### **Brexit and the Retail Automotive Sector**

With the role of changing technology moving against the independent sector the impact of Britain leaving the EU would be potentially fatal. If Britain were to leave the EU Block Exemption Regulations would no longer apply to the conduct or agreements which affect only UK trade. (Ones affecting trade with the EU would stay in place.) The issue is that the dealer agreements are UK specific so Brexit would automatically lead to a significant alteration in the legal position in the UK and unless replacement provisions were introduced the situation would arise where franchise agreements could not be enforced. This would lead to power again going back to the manufacturers who could reverse all of the provision under BER.

If this were the case then it could lead to restricted market area selling the cancellation of franchise contracts without due cause. It is however unlikely that any manufacturer would want to damage their retail supply chain dramatically but they would be legally able to protect their franchisees by making it more difficult for the independents to operate. Warranty arrangements could be enforced that all servicing would have to be done through the franchised network. There would be no necessity for the manufacturer to provide technical information or tooling to the independent garages which would force customers to use the franchised dealers leading to a lack of competition and increased prices. In the extreme it would be possible for the manufacturer to impose recommended pricing on sales and service with franchisees being penalised for failing to conform.

### **Implications for the Independent Sector**

The independent sector would be severely disadvantaged by Brexit. Without the BER they would have little entitlement to manufacturer based servicing information or tooling. This would mean that they would be gradually be driven out of the market as new technologies entered which required different tooling and computer diagnostic.

Brexit will accelerate the momentum towards the power of the manufacturer in the supply chain. As a result if no replacement provision is put in place the following scenarios would emerge:

- Recognised Repairer Status will no longer exist leading to a lack of warranty work for the independent sector
- The independent sector will no longer have legal access to information and tooling from the manufacturer
- There will be a dramatic fall in the potential competition in the aftersales market
- Servicing prices will rise due to a lack of competition
- The manufacturers' would have the ability to re-impose market areas on their dealers
- The car market generally in the UK will be less competitive and will allow for new car prices to rise.
- Manufacturers would be able to cancel franchise agreements without 'good cause.'

### **Conclusion**

All of the economic and technological forces are at work against the independent garage, if Brexit occurs it will turn an unhealthy situation into potentially a fatal one. With over 500k jobs at risk in the sector Brexit has major implications for the industry as a whole but more importantly for the independent sector. Without Government intervention one could foresee a halving of the number of independents which would result in a 30% rise above inflation in the cost of car servicing. It would reduce competition in the new car market again raising prices. This may work well for global corporations but it would harm both the British economy, the retail automotive sector and ultimately be a poor outcome for the British consumer.