

Right Way Ltd manufactures SATNAV systems for cars and develops the principal navigation software for them.

It has entered into agreements with 5 major car manufacturers for 5 years to have Right Way SATNAV pre-installed in their executive cars. The 5 car manufacturers account for 80% of the UK car market (and a proportionate share of the executive car market).

Where SATNAV is not pre-installed in cars SATNAV systems are purchased directly by consumers from retailers and installed in their cars themselves.

There are 3 other suppliers of SATNAV systems in the UK. The largest of these, ZOOM-IN Ltd, has approximately 20% market share and ONLY distributes by pre-installation of its SATNAVs in cars. It has an agreement with a different car manufacturer which accounts for 10% of executive cars, the rest being non-exec pre-installation.

The other 2 SATNAV suppliers have approximately 10% of the market each.

You work for In-Car Tech Ltd a company that develops software. You have recently developed and are supplying a type of software known as 'Pinpoint' software that interoperates with SATNAV programmes. Your system is called Locate1 and, depending on what the driver wants to know about, it can locate nearby facilities, such as:

- petrol stations;
- car parks;
- motorway service stations; and
- post offices.

Locate1 can be pre-installed on a SATNAV system sold to a customer, Alternatively, it can be downloaded from the internet onto a PC or bought as standalone software and then uploaded onto the SATNAV which can be connected to a customer's PC so that additional compatible software packages can be installed. However, pre-installation is the most effective form of distribution accounting for 90% of sales.

There is 1 other independent provider of Pinpoint software accounting for about 30% of the total number of UK units shipped.

Right Way Ltd has been including Locate1 in its SATNAV systems aimed at the executive car market. They are the largest purchaser of Pinpoint systems and account for about 55% of the market. Up till now, they have only purchased Locate1.

You have also signed a 5 year agreement to have Locate1 pre-installed on ZOOM-IN's SATNAV. Previously ZOOM-IN used the other independent provider of Pinpoint software to preinstall on its SATNAV.

Neither ZOOM-IN nor the remaining 2 SATNAV suppliers have developed their own Pinpoint software systems.

You have just learned from your Sales Director that Right Way Ltd has given notice to terminate your contract for the supply of Locate1 because in 2 months time it will be including its own version of Locate1 (called Right Place1) in all its SATNAV systems.

You will still be able to download other Pinpoint software onto Right Way so you can have 2 systems, but you will have to switch the SATNAV on and off in order to start the alternative programme up. Your director says people offer switch on while driving and changes like this would prevent anyone using another Pinpoint system.

Your Sales Director tells you that this will result in Locate1 being excluded from a large part of its market with a similar immediate loss in sales. You are asked to complain about Right Way Ltd to the OFT.

What do you need to consider?

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## **Bundling RightWay1 with RightWay SATNAV.**

### ***What are the relevant markets?***

Geographically: UK

*Product Markets*

SATNAV Systems

Pin Point Systems

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### **SATNAV MARKET SHARES**

RightWay 60%

Zoom-In 20%

A 10%

B 10%

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<b>Pin Point Market Shares</b>	<b>Pre Bundling</b>	<b>Post Bundling</b>
In-Car – Locate 1	70%	15%
RightWay 1	0%	55%
X	30%	30%

NB: In-Car Tech has a 70% share pre-bundling.

### ***Are they separate products?***

Yes, customers do download it separately – but 90% of sales are pre-installation – so this is not a high level of independent downloading. So arguably it is becoming a part of SATNAV software.

The more cars have SATNAV pre-installed, the less downloading will become an option. There is only one other independent provider of Pin Point.

### ***Are customers given a choice?***

No, all RightWay customers will have to have RightWay 1 and 80% of Executive cars: but they didn't have a choice before: only difference is there was competition between Pin Point suppliers pre-bundling. Although they can download and add a

second programme on but it will be difficult to use and probably ineffective – especially if rebooting is needed when dividing.

***Does the practice foreclose competition?***

Arguably it forecloses 55% - only for 5 years.

Will competition have been destroyed in that time?

There is still 45% of current size market and SATNAV market could grow.

Are there other applications – SATNAV on mobile phones?

***Is it objectively justified?***

Are there functional reasons why RightWay 1 should be exactly the same format for Pin Point – are there car safety issues with two separately formatted systems?