

NOW PUBLIC

**NOW FOR PUBLIC
RELEASE**

Tribunal File No. CT-2002-004

THE COMPETITION TRIBUNAL

IN THE MATTER OF the *Competition Act*, R.S.C., 1985, c.C-34, as amended;


AND IN THE MATTER OF an inquiry pursuant to subparagraph 10(1)(b)(ii) of the *Competition Act* into certain marketing practices of Sears Canada Inc.;

AND IN THE MATTER OF an Application by the Commissioner of Competition for an order pursuant to section 74.1 of the *Competition Act*.

BETWEEN:

THE COMMISSIONER OF COMPETITION

Applicant

COMPETITION TRIBUNAL TRIBUNAL DE LA CONCURRENCE		P R O D U I T
OCT 14 2003		
REGISTRAR — REGISTRAIRE		
OTTAWA, ONT.	#0070	

-and-

SEARS CANADA INC.

Respondent

*original with
comm. exp. reports
Conf Annex D*

AFFIDAVIT OF DENNIS DESROSIERS

I, Dennis DesRosiers, of the City of Richmond Hill, in the Province of Ontario, MAKE OATH AND SAY:

- I am the President of DesRosiers Automotive Consultants Inc., an automotive market research and consulting group.
- Attached hereto and marked as Exhibit "A" is a true copy of my evidence. The contents of Exhibit "A" and the opinions expressed therein are to the best of my knowledge, information and belief.

COMPETITION TRIBUNAL
TRIBUNAL DE LA CONCURRENCE

File No. CT-2002-004

Commissioner of Competition vs Sears Canada Inc.

Exhibit No.: R 142

Filed on: January 20, 2004

Registrar: [Signature]

3. Attached hereto and marked as Exhibit "B" is a true copy of my Curriculum Vitae.

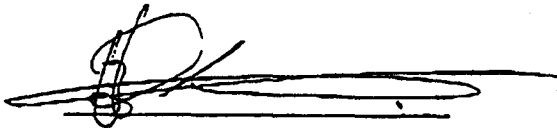
4. I make this affidavit pursuant to Rule 47(1) of the *Competition Tribunal Rules*.

SWORN BEFORE ME, at the City of *Richmond Hill*

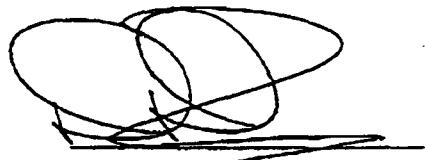
, in the Province of Ontario,)

this 22 day of September 2003.)

)




COMMISSIONER OF OATHS



DENNIS DESROSIERS

Dean Salvatore Cassar, a Commissioner, etc.,
Province of Ontario, for the Government of Canada,
Industry Canada. Expires September 6, 2005

This is exhibit A to the Affidavit of Mr. Dennis DesRosiers
Sworn before me this 22 day of September, 2003


Commissioner of Ontario
Sept. 22, 2003

Dean Salvatore Cassar, a Commissioner, etc.,
Province of Ontario, for the Government of Canada,
Industry Canada. Expires September 6, 2005

Commissioner of Competition
v. Sears Canada Inc.

Expert Witness Report
September 22, 2003
Dennis DesRosiers

OPINION

Background

1. I was retained by the Commissioner of Competition to provide an opinion regarding certain aspects of the aftermarket for tires in Canada.

Qualifications

2. I have been an automotive sector analyst since 1973 and President of DesRosiers Automotive Consultants Inc (DAC) since 1985. See Appendix "A".
3. My company has conducted over 3,000 studies on the automotive sector including numerous studies related to the aftermarket for vehicles in Canada. Among the studies conducted by DAC is an annual survey of 2,500 consumers - the Light Vehicle Study - which is purchased by leading aftermarket companies such as Canadian Tire, Speedy, Midas, UAP, Uni-Select and others. I have testified as an expert witness in approximately a half-dozen court cases and submitted expert witness reports in approximately a dozen additional court cases. I have published well over 100 articles on the aftermarket in publications like Jobber News and Aftermarket Canada.

Structure of the Automotive Aftermarket in Canada

4. The automotive aftermarket is that part of the automotive industry concerned with the manufacturing, re-manufacturing, distribution and retailing of all vehicle parts, tools, equipment, accessories, chemicals and services, except those products that are used as original equipment to manufacture new vehicles.
5. There are three channels of distribution in the aftermarket. The original equipment service (OES) channel in which consumers have their vehicle repaired at their vehicle dealer, the traditional aftermarket channel in which consumers have their vehicles repaired at outlets like their independent garage or a specialty shop and the do-it-yourself (DIY) channel in which the consumer simply purchases the required aftermarket parts and do the work themselves.
6. Typical players within each channel include:

Original Equipment Service (usually includes parts & installation)
 - Vehicle Company Warehouses
 - New/Used Car and Light Truck Dealers
Retail / DIY (usually does not include installation)
 - Mass Merchandisers
 - Warehouse Clubs

- Drug Stores
- Wholesalers
- New Car Dealers

Traditional Aftermarket (usually includes parts & installation)

- Traditional Warehouse Distributors
 - Specialty Warehouse Distributors
 - Buying Groups
 - Wholesalers
 - Service Stations
 - Independent Repair Shops
 - Specialty Repair Shops
7. Divisions between the channels are not entirely clear-cut. Market competition has led to considerable overlap - some players compete within two or all three channels. Car dealers, for example, retail over-the-counter parts, repair vehicles and wholesale parts to independent garages. Many aftermarket outlets also serve non-automotive markets: heavy-duty trucks and trailers, off-highway vehicles, industrial equipment, farm equipment, motorcycles, snowmobiles, and other recreational vehicles.

Size of the Aftermarket for Tires

8. There are two primary ways to calculate the size of the aftermarket for tires in Canada. The first is to survey consumers who own passenger cars and light trucks as to whether they purchased tires during the last 12 months, and, if yes, how many were purchased. This information is then multiplied by the number of light vehicles on the road in Canada to calculate the number of tires purchased. Light vehicles include passenger cars, small to full size pick-up trucks, small to full size sport utility vehicles (SUVs) and small to full size vans. DAC annually conducts the surveys required to do this and has done so as far back as 1990. The second is to survey suppliers as to how many tires they shipped to Canadian retailers. The Rubber Association of Canada (RAC) publishes this information on their website.
9. Neither methodology gives 100 percent accurate results. For instance, survey data used by DAC for this report slightly overestimates the market since some consumers list their tire repairs as tire replacements and some consumers purchase used tires. In addition, survey data contain errors of estimates due to sampling and consumer recall issues.

10. The RAC supplier survey slightly underestimates the size of the market because not all suppliers participate, it includes only domestically shipped tires, it does not include retread tires and there may be other channels where consumers purchase tires that are not included in the survey.

Table 1: Size of the Tire Market in Canada

	Total Light Vehicle Tire Shipments Millions	DesRosiers' Estimates Millions
1994	15.7	15.8
1995	15.3	18.9
1996	15.5	18.9
1997	15.7	18.2
1998	16.2	20.8
1999	17.1	21.1
2000	17.2	20.1
2001	18.1	20.5

Source: Rubber Association of Canada Website
DesRosiers Light Vehicle Studies 1994 to 2001

11. In my opinion, based on these two methodologies the tire market in 1999 was approximately 17-21 million units.

Purchase Incidence

12. In my opinion, generally a little over a third of consumers in Canada purchase tires each year for their light vehicles and this was consistent for 1999. It can be inferred from this that consumers shop for tires every two to three years. These views are consistent with data collected by DAC.

Table 2: The Tire Market in Canada - Incidence of Purchase

	1995	1996	1997	1998	1999	2000	2001
Incidence of Purchase	39%	38%	36%	39%	36%	36%	37%

Source: DesRosiers Light Vehicle Studies 1995 to 2001

Number of Tires Purchased per Incidence

- 13. In my opinion, consumers in Canada typically purchase tires in pairs, either one pair or two pairs at a time. This view is supported by our data, which indicates about 90 percent of consumers purchased tires in this manner. Our data shows that in 1999, 89 percent of consumers purchased either two or four tires at the same time.
- 14. In my opinion, a smaller percentage of consumers purchase tires one at a time. Our data for 1999 indicated 8 percent of consumers purchased only one tire.
- 15. Consumers would purchase only one tire for a number of reasons including:
 - Tire failure
 - Defective tire
 - Road hazard
 - Replace the spare tire

Table 3: The Tire Market in Canada - Number of Tires Purchased

	1995	1996	1997	1998	1999	2000	2001
Four Tires	52%	51%	53%	57%	61%	56%	59%
Two Tires	34%	36%	35%	32%	28%	31%	31%
One Tire	10%	9%	8%	7%	8%	7%	8%
Three Tires	2%	1%	1%	1%	1%	2%	1%
Not Specified	2%	2%	2%	3%	2%	4%	2%
Total	100%	100%	100%	100%	100%	100%	100%

Source: DesRosiers Light Vehicle Studies 1995 to 2001


Were the Tires Purchased on Sale

- 16. In my opinion, about half of consumers pay the "regular" price for their tires. This view is supported by the data collected as part of DAC's light vehicle study in which we began asking this question in 1997. In 1999, 50 percent of consumers surveyed indicated they paid the "regular" price for their tires.
- 17. A little over 40 percent of consumers purchase their tires "on sale" and between 2 percent and 5 percent indicate the cost of their tire is covered by their warranty. This data is also consistent year to year.
- 18. In my opinion, Sears has a high incidence of tires purchased "on sale" at about 85 percent (83 percent in 1999).

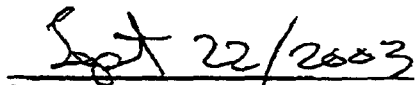
Table 4: The Tire Market in Canada - Were the Tires Purchased on Sale

	1997	1998	1999	2000	2001
Total Sample					
Regular Price	51%	48%	50%	51%	49%
On Sale	41%	44%	45%	43%	42%
Warranty	4%	4%	2%	4%	5%
Combination	1%	1%	1%	1%	1%
Sears Only					
Regular Price	7%	11%	15%	10%	18%
On Sale	91%	84%	83%	84%	82%
Warranty	2%	5%	0%	6%	0%
Combination	0%	0%	2%	0%	0%

Source: DesRosiers Light Vehicle Studies 1997 to 2001



 Dennis DesRosiers



 Date

*Sworn before me this 22 day of
September 2003
[Signature]
Commissioner of OATHS
Sept 22 2003*

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DesRosiers
Rosiers*

APPENDIX "A"

Mr. Dennis DesRosiers
President

Dean Salvatore Cassar, a Commissioner, etc.,
Province of Ontario, for the Government of Canada,
Industry Canada. Expires September 6, 2005

ACADEMIC BACKGROUND:

- > Graduate of The Japanese Business Study Program, Oct. 1984.
- > Certified Association Executive, Institute of Association Executives, 1983.
- > Four Years Honours B.A. in Economics, University of Windsor, President's Roll of Scholars, 1969-1973.

CAREER BACKGROUND:

- > President, DesRosiers Automotive Consultants Inc. - an automotive market research and consulting group founded in 1985.
- > Taught the "Automotive Aftermarket" course at the Canadian Automotive Institute, Georgian College, 1990.
- > Director of Research, Automotive Parts Manufacturers' Association of Canada, August 1979 to 1986.
- > Senior Auto Industry Analyst, Economic Policy Branch, Ministry of Treasury and Economics, Government of Ontario, November 1976 to August 1979.
- > Economist, Policy Planning Branch, Ministry of Treasury and Economics, Government of Ontario, July 1974 to November 1976.
- > Elected to the Board of Governors at The University of Windsor, September 2000.
- > Chairman, Automotive Advisory Committee, Humber College, July 2003.

PERSONAL BACKGROUND:

- > Born in Windsor, Ontario on September 12, 1950
- > Married with one child, a daughter.