

ACCC INQUIRY INTO THE PRICE OF UNLEADED PETROL

Public hearing – Melbourne, 9 October 2007

Time: 10am
Address: CQ Functions
123 Queen Street
Room: Room 6 (level 12)

Time	Witness	Submission
10am	Informed Sources Alan Cadd, Managing Director. Alan Price, Group Strategist.	-
	Mark Kevin	-

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TRANSCRIPT OF PROCEEDINGS

AUSTRALIAN COMPETITION

AND CONSUMER COMMISSION

MR GRAEME SAMUEL, Chairman

MR JOHN MARTIN, Commissioner

DR STEPHEN KING, Commissioner

PETROL PRICE INQUIRY HEARING

**CONDUCTED AT: CQ FUNCTIONS
MELBOURNE**

DATE: 10.00 AM, TUESDAY 09 OCTOBER 2007

THE CHAIRPERSON: My name is Graeme Samuel. I am the Chair of the Australian Competition and Consumer Commission and of this public inquiry into the price of unleaded petrol. I am joined by Commissioner John Martin on my right and Commissioner Stephen King on my left. As Chair, I welcome you all and
5 declare this hearing open. The hearing is convened under Part VIIA of the Trade Practices Act pursuant to the Federal Treasurer's approval for the ACCC to hold an inquiry into the price of unleaded petrol.

10 The terms of reference for the inquiry have been published on our website, together with an issues paper and all public submissions that have been received. The ACCC has also published notes for witnesses of this inquiry which outline the procedures followed by the ACCC at public hearings. The names of witnesses appearing today have also been published on the website. Witnesses appearing today will be
15 questioned by counsel assisting the Commission. Counsel appearing today is Simon Marks of Senior Counsel, assisted by Fiona Forsyth.

I just note that the conduct of the inquiry is within the discretion of the inquiry chair. Anyone using insulting language or otherwise disrupting the hearing may be
20 excluded.

We may wish to question witnesses about information that has been provided on a confidential basis. The ACCC can take evidence in private if a witness objects to giving evidence of a confidential nature in public and the ACCC considers it
25 appropriate to do so. If this occurs it may be necessary for all other parties to leave the room for parts of the hearing. The ACCC intends to hold its hearings in public as far as possible, but we do want to be able to ask witnesses about matters that are commercially sensitive. This means we may need to close the hearings at certain points.

30 A transcript of this hearing will be taken and made available on the ACCC's website as soon as possible after the hearing. However, evidence given in private will be recorded and transcribed but won't be made available on the website.

35 With those preliminary matters dealt with, I am going to ask the witnesses from Informed Sources to, please, state their name and position, for the record.

MR CADD: Alan Cadd, Managing Director.

40 MR PRICE: Alan Price, Group Strategist.

THE CHAIRPERSON: Do you have legal representatives here today?

MR PRICE: No.

45 MR CADD: No.

THE CHAIRPERSON: Thank you. Could I just inform you about some of the rules regarding giving evidence at this inquiry? Firstly, it is an offence to refuse to answer

a question that you are required to answer by the inquiry Chair. Secondly, it is an offence to give evidence that you know is false or misleading or omits any matter or thing without which it is misleading.

5 You can give your evidence under oath, or affirmation if you believe an oath would not be binding or for religious reasons you are prevented from swearing an oath on the Bible. Could I ask each of you whether you wish to swear under oath or affirm the evidence you give at this inquiry and then take the appropriate course of action.

10 MR CADD: I'd prefer to affirm.

MR PRICE: I'd like to affirm as well.

15 <ALAN CADD, AFFIRMED [10.05am]

<ALAN PRICE, AFFIRMED

20

THE CHAIRPERSON: Thank you. Mr Marks?

MR MARKS: Gentlemen, can I ask each of you, in turn, firstly what your roles with informed sources are. Mr Cadd, may I start with you?

25

MR CADD: Certainly. I was a co-founder of the firm 20-odd years ago and I am its group managing director.

MR MARKS: Right, and Mr Price?

30

MR PRICE: I'm currently the company's group strategist and general manager for Motormouth.

MR MARKS: What does "group strategist" mean?

35

MR PRICE: It means somebody who used to be the general manager until about four weeks ago.

MR MARKS: So there is no particular - - -

40

MR PRICE: I guess I look after the strategy of the group in terms of the international business.

45 MR MARKS: I see. All right. Now, I have some general questions I want to ask you before we start, but I understand that there is a slide, or at least an overhead, which you would like to make brief reference to in this context. Would you like to do that now?

MR CADD: Please. In fact, I would like to give a very brief statement, which may help the Commission in understanding more clearly the processes by which Informed Sources goes about its business, if that's acceptable.

5 MR MARKS: Yes.

MR CADD: Thank you. I would like to take the opportunity to provide a brief overview of Informed Sources and some observation of the retail fuel market, both in Australia and overseas. Price discounting and the pricing cycles had its genesis in the late sixties and early seventies. Indeed, the idea for our company came from an oil company representative who, employed during the seventies in Melbourne, was required to drive around collecting prices at competitor petrol stations before feeding this data back to his superiors to make a decision at what price to set for their company sites.

15 The idea lay dormant until I met that executive in the mid eighties, and together we started the company in 1987. By this stage, the pricing cycles had been operating in Australia for almost 15 or 20 years. After 18 months in partnership with this gentleman, my wife and I acquired 100 per cent of Informed Sources and the company remains an Australian family company, and, indeed, we celebrated our 20th year in business just three weeks ago. Our head office is in Brisbane and we also have offices in Auckland, Kuala Lumpur, Dusseldorf and Oslo.

25 Our experience in monitoring petrol prices in other countries indicates that the rise and fall that afflicts the Australian petrol market is not unique, as one witness to this hearing has previously indicated, but, rather, it is so well established that many paperers have been written on the topic and the cycle is known as the Edgeworth Cycle. We collect data and package that data for our clients.

30 Whilst our origins were in the oil industry, and today retail fuel price monitoring is a major component of our business, we also undertake activities like monitoring of hardware, grocery and liquor prices; mystery shopping in retail, gaming and oil industries; we gather locational data on service stations in Australia, New Zealand, Malaysia and also in places like Thailand, Egypt, Italy, Germany, et cetera. Indeed, this week we commenced a project in Norway to predict the volumes of fuel being sold at some 500 service stations in the greater Oslo area. We run a consumer website, www.motormouth.com.au.

40 Let me return to our work in the Australian retail fuel market by making a couple of points. Informed Sources is fiercely independent. We are not a consulting company. We deal in data; indeed, we deal in quality data. We are able to work with a range of companies and government entities because we tell what has happened, not why.

45 We do not operate a tactical pricing system for oil retailers, which has also been indicated by some other parties at this hearing.

I would like to display a graphic to the hearing to better demonstrate our process. Any graphics or charts that we may display in this open session we will make hard copies available for the Commission for inclusion in the transcript.

5 Informed Sources uses their own staff in the field to collect petrol prices off price boards outside service stations and we package this with fuel pricing data we source from oil retailers into a product called Oil Price Watch. On the screen, at the bottom left, you will see a representation of manual collection, where our drivers drive by the sites and, via the process of mobile technology, send that data into us. We also
10 receive data from oil company pricing systems. This is from the oil company site to the oil company pricing system, and that is then fed into our database. Other subscribers also send into our database. We manage that process. We audit it, we police it, and then we feed consistent, reliable data back to our clients in two forms, either a data feed to their own systems for decision making processes or via a secure
15 web reporting service to allow companies to see the data.

THE CHAIRPERSON: Mr Cadd, do you have hard copies with you?

MR CADD: I do not.

20

THE CHAIRPERSON: It is a pity, because it is useful to be able to make notes on the hard copies.

MR CADD: Apologies, Chairman. Next time I will bring them. But I can place this up at any stage. In fact, I will leave it there while I continue.

25

THE CHAIRPERSON: Okay.

MR CADD: If we refer to OPW - this is in fact Oil Price Watch service, so forgive us if we slip back into the vernacular - our systems are constructed to so that Informed Sources does not have access to any forward prices. It is impossible for them to appear on our system before they have appeared on the pumps or on the price boards. We deal only in prices that are only already visible to the public, and we make this data available to our clients electronically.

35

Whilst I do not have an intimate knowledge of each of the oil retailers' use of our data - and this is not said to be evasive but, rather, a deliberate positioning by us - it is probably fair to say that most major oil retailers in Australia and overseas operate their own computer-based tactical pricing systems, some purchased and some built internally. Generally, those systems would source competitive pricing from their
40 own sites with their console operators or managers keying in competitive prices into their consoles or via an interactive voice recognition system. Informed Sources data then is added to these tactical pricing systems to aid the pricing managers in managing prices.

45

One of the main benefits of the Informed Sources data is its independence and its accuracy, and this helps to clearly identify lies from site operators who are seeking support where perhaps there is no reason.

Finally, as I am sure you would expect, the legality of our services have been closely examined by the legal departments of the oil companies we have as clients, and several have sought advice from some of the more expensive legal firms across this country. In all cases, our services have been found to be completely within the laws of this country. This reinforces our earlier confirmation by the Trade Practices Commission of our processes and the continued acceptance of our processes in the provision of our data and services to the current Commission.

Furthermore, this position has been enhanced by confirmation letters from the New Zealand Commerce Commission and the German Bundes Kartell amt or the Federal Cartel Office in Germany. I add that when the one does cartel considered our services they were considering these against both the German and the European competition laws. Clearly, it would not be possible for them to find our services acceptable under one jurisdiction and not the another.

We look forward to being of assistance to the Commission and counsel assisting by now answering questions. We will gladly answer questions on our data and processes where we are able to do so in a clear and unambiguous manner. However, for some questions where we have not had the benefit of doing detailed analysis, or where we have no direct knowledge in relation to the question, we will, at best, be able to offer an opinion or an educated guess or belief. We will endeavour to be clear which level of confidence applies to our answers. Thank you.

MR MARKS: Now, Mr Cadd, I think quite a large amount of that but not all by any means, quite a large amount nevertheless of the information you have read out was provided to the Senate Economics Committee last year, was it not, in a letter which was prepared by Informed Sources?

MR PRICE: Yes, it was.

MR MARKS: We do have the benefit of that letter. I wonder if I could ask you some broad questions. Some of them will necessarily cover areas you have already touched on but just to make sure that we understand exactly how your business operates and what it does.

MR CADD: Certainly.

MR MARKS: Firstly, can I ask you a little bit about the set up. You say you are based in Brisbane - - -

MR CADD: Mhmm.

MR MARKS: - - - head office is in Brisbane, but you operate what is essentially a data collection agency.

MR CADD: Correct.

MR MARKS: Now, first of all, just before I delve into the petrol aspect of it, I think you are involved in data collection services in differing fields of economic activity, are you not?

5 MR CADD: That's correct.

MR MARKS: The petrol industry is the one we're interested in but I think in your letter you make some reference to others. There is the supermarket industry.

10 MR CADD: Correct.

MR MARKS: There is - are there other industries other than groceries?

15 MR CADD: Certainly hardware. We have also done pharmacy, indeed liquor.

MR MARKS: All right, and when you say "we've done", that means you have done it more on a spot basis on a taken engagement, have you?

20 MR CADD: We have continuing business in the retail, supermarket and hardware business; the pharmacy not currently; liquor we currently have business as well.

MR MARKS: All right. Just focusing on the petrol business, is that a large part of the work that you do?

25 MR CADD: It's the lion's share, for sure.

30 MR MARKS: The lion's share, yes. Just let me understand the Australian position. So far as Australia is concerned, the business is operated out of Brisbane but you monitor prices in all the major capitals, certainly in Brisbane and surrounds. Now, that goes down to the Gold Coast, does it?

MR CADD: Correct.

35 MR MARKS: And then in Sydney, in the metropolitan area?

MR CADD: Correct.

MR MARKS: In Melbourne, likewise in the metropolitan area?

40 MR CADD: Yes.

MR MARKS: And I think also in Adelaide?

45 MR CADD: That's correct.

MR MARKS: Do you monitor any activity outside those metropolitan locations, for example, in regional areas?

MR CADD: We do via the electronic feed that we get from our subscribers, because their data feeds come from their pricing systems and they could equally as well be in the regional areas as they could be in the metropolitan areas.

5 MR MARKS: So you do collect - but what you are saying is that you don't manually collect by the - - -

MR CADD: The drive by.

10 MR MARKS: - - - drive by process in respect of regional areas?

MR CADD: That's correct. That's correct.

15 MR MARKS: Now, is the reason for that largely that price cycles don't occur in regional areas, there isn't as much interest? Is there a reason why you don't?

MR PRICE: If I could answer that?

20 MR MARKS: Yes, of course.

MR PRICE: The electronic monitoring covers about 150 country cities.

MR MARKS: 150?

25 MR PRICE: 150 country locations, country cities, regional cities and towns, of which I think we provide a service to the ACCC of somewhere over a hundred towns. To answer your question, why don't we monitor manually in those locations, it is simply a matter of cost and demand for the data.

30 MR MARKS: Yes.

MR PRICE: And the demand for the data is not there in the locations typically where the price cycles are not occurring.

35 MR MARKS: Is absent, yes.

MR PRICE: Yes.

40 MR MARKS: All right. Let me ask you, then, a little bit about your business, insofar as you operate in the petrol industry. Now, first of all, can I talk about your subscription business.

MR CADD: Certainly.

45 MR MARKS: Now, in your description today, you have explained what that business is in the broadest terms. In your letter to the Senate, you called yourself a multi subscriber service reporting down to individual site levels to assist retailers with tactical pricing. Can I ask you these questions: Firstly, the heart of your

business, I gleaned, is around price cycles and their occurrence in metropolitan areas, would you agree?

5 MR CADD: Well, it is around the collection of petrol prices. The price cycles just happen to be relevant in that dimension, yes.

10 MR MARKS: But they are highly relevant because without them, the demand for the sort of data that you provide, and very efficiently provide, would not necessarily be absent but it would be significantly diminished.

MR CADD: If I compare our business to businesses in other countries where cycles are less extreme, there are people who do what we do and still make a living but it would be less extreme, correct.

15 MR MARKS: Yes, so it doesn't detract from my proposition but it just explains the weight of the cycles as a part of your business. It is a central feature around which the Informed Sources business operates.

20 MR CADD: Correct.

MR MARKS: Can I ask you a little bit about the participants? Firstly, is the service that you provide open to all industry participants, were they want to be a subscriber?

25 MR CADD: Absolutely. Even the fact that we make available some very sophisticated reports free of charge means that there is no impediment to the smallest of retailers from taking our service.

30 MR MARKS: All right. Well, now, the next question, I suppose, is this: Who does take up your service and let's see how popular it is. Can we talk about the subscribers, please?

MR CADD: Certainly. We have traditional oil companies, in the form of BP and Mobil. We have - - -

35 MR MARKS: So that's the sort of majors?

MR CADD: Yes.

40 MR MARKS: Are all of the majors subscribers?

45 MR CADD: Yes, they are. We have, in addition, the supermarket alliances of Shell/Coles Express; Caltex, of course, in its own name and Caltex/Woolworths. But we also have the convenience store operator, 7 Eleven. We then go down to somewhat smaller operators that could be called multi site franchisees, like Adelaide Peregrine Corporation. We also provide data, of course, to the Commission, and we provide reporting services to the motoring organisations, RACV database - - -

MR MARKS: Yes. Now, I'm sorry, I was referring to subscription services but you, rightly, may be pointing to these as subscribers in one form or another.

MR CADD: Right.

5

MR MARKS: The majors are definitely subscribers?

MR CADD: If you are looking at subscribers as meaning those people who contribute and receive site specific data then it receives the majors, the supermarket companies, the convenience store company of 7 Eleven, but also the small multi site franchisees, such as Peregrine, and also some distributors as well.

10

MR MARKS: Okay. Let me then just probe that a bit more. Firstly, the majors. Now, you mentioned there were the two alliances. Are each of the alliance members - in the case of Caltex, it's Caltex/Woolworths; in the case of Shell, it's Shell/Coles - are they separate subscribers who pay separate subscriptions?

15

MR CADD: Caltex pays its subscription by itself.

20

MR MARKS: Yes.

MR CADD: Woolworths pays its subscription itself. Coles and Shell have come to us under a joint banner so that each pays half a subscription.

25

MR MARKS: Is there any reason why Shell and Coles' subscription is treated differently to that of Caltex and Woolworths?

30

MR CADD: The argument, which seemed logical to us at the time, was that Shell was adopting a refining supply position in the market place and would not be adopting a retail position. Coles Express was adopting a retail arm of the Shell petrol brand, and so if you lumped them together, it conveniently made one whole which was perhaps equivalent to a BP or a Caltex.

35

MR MARKS: Now, let me ask you, then, about the other - well, perhaps I will put it differently. Let's talk about the types of subscription. I glean from reading the materials that you have what you describe as full subscribers to whom you provide full subscriber services.

40

MR CADD: Correct.

MR MARKS: Tell us about that category first, if you would. Firstly, what is a full subscriber?

45

MR CADD: That is any one of the people who both provide data into the database and who receive site specific data back out again. So, for example, Peregrine in South Australia provides data and also receives data out. They are a full subscriber only as it applies to South Australia. Then you have - then you have - 7 Eleven, for example, provides data and receives data in Queensland, New South Wales and

Victoria, but not in the other states. So they are a full subscriber on a state basis. Then you have national marketers such as, shall we say, BP or Mobil or Caltex, who take the full service in all of the states that we offer it.

5 MR MARKS: Right. Now, firstly, the full service, just very broadly, what does the full subscriber get for his money, and then we'll ask you about what money he is paying. First of all, what does he get for his full subscription? I want to give you an example - let's say Caltex.

10 MR CADD: Okay. Caltex - there are two services, first of all. There is the electronic service and the manual service, and as far as the Commissioners are concerned, very simply, you can drop off the manual service and not take it and you can just take the electronic, or vice versa. So you have chosen Caltex, Caltex
15 subscribes to both the manual collection service in the cities you identified - Brisbane, Sydney, Melbourne, Adelaide, soon to be Hobart, I believe, yes, as well - and they have also subscribed to the process of providing site specific data and receiving, in exchange, data about the rest of the market.

MR MARKS: Okay. So the full subscriber gets a manual service, an electronic
20 service, a site specific service and - anything else?

MR CADD: And access, if they wish, to our free secure web reporting.

MR MARKS: And what does that involve?
25

MR CADD: That involves reports that we have developed over the last 20 years which include market price distribution reports, most common prices reports, site specific reports. But depending on the company, some companies just simply choose to ignore that offer because they have their own internal tactical pricings, in which
30 case they then just simply accept the data feed directly into their own management systems.

MR MARKS: All right. Now, do I take it that all of the majors are full subscribers in the sense you have just outlined?
35

MR CADD: With the exception that Coles Express/Shell do not take the manual collection.

MR MARKS: All right.
40

MR CADD: I'm sorry, and excuse me, neither does 7 Eleven.

MR MARKS: Neither does 7 Eleven? They only take the electronic, do they?

45 MR CADD: Correct.

MR MARKS: Now, let me ask you this: The next category from the full subscriber, you described Peregrine a moment ago as being in a different category. You said,

look, it's got what you described as a full subscription but within the confines of the state of South Australia?

MR CADD: Mhmm, correct.

5

MR MARKS: What does that give it?

MR CADD: Exactly the same as the majors that you are referring to, except that because its operations do not extend outside of South Australia, we partition the data and of course the costs and charges so that they only pay for the South Australian part of that data.

10

MR MARKS: Okay. Now, is the subscription that is charged to all the majors the same if they are full subscribers?

15

MR CADD: Approximately.

MR MARKS: All right, within a dollar or two?

20

MR CADD: Well, I wouldn't say within a dollar or two.

MR MARKS: What would you say?

MR CADD: I don't know - frankly, within plus or minus 5 per cent.

25

MR MARKS: All right. I'm going ask you what those subscriptions all are. I'm happy enough to ask you that in a confidential context, if you would like, if you would prefer that.

30

MR CADD: I think I would prefer to do that in a confidential situation.

MR MARKS: Okay, but I would want to ask you that. I will also want to ask you what the subscriptions are for the non - for the South Australian example, Peregrine's case.

35

MR CADD: Right. Yes.

MR MARKS: You said 7 Eleven had a partial subscription, and I have loosely defined it that way. I want to just know what 7 Eleven gets. You said it's in the major metropolitan areas. It is not in South Australia?

40

MR CADD: 7 Eleven does not operate in South Australia so, therefore, the electronic service that 7 Eleven gets is restricted to Queensland, New South Wales and Victoria.

45

MR MARKS: Okay. So - - -

MR CADD: So they are equivalent to - they are equivalent to and getting the same data as a BP or a Mobil or a Caltex, just that, again, because they don't operate in South Australia, they simply don't get that data.

5 MR MARKS: Yes, and they are also not getting manual data?

MR CADD: Correct.

10 MR MARKS: Okay. Now, is there - there are then more site specific categories of subscriber, it seems. I think you talked about some distributors and I'm not sure whether there are any other even specific categories? Who are your distributor subscribers?

15 MR PRICE: I'm can't tell you the names off - Reliance is one, but there has been some amalgamations in the distributor market lately. Essentially, we're providing a - more of a summary service to them, because a lot of the distributors are operating outside of metro areas, so it's more of a summary service rather than a site specific service.

20 MR MARKS: I wanted to ask you, of course, following - you just made the point really that the distributors would be more interested, would they not, in the regional sort of information, which you don't specialise in quite the same way in providing.

25 MR PRICE: Correct.

MR MARKS: So what does the regional subscriber get for his money?

30 MR PRICE: Well, he would get price distribution reports and typically would get a competitor sell report.

MR MARKS: I'm so sorry - - -

MR PRICE: What we would call a competitor sell report.

35 MR MARKS: What does that mean?

40 MR PRICE: So, essentially it would be - let's say we were looking at Dubbo and it would be a report showing the prices for the sites that we have prices for in the Dubbo area at a particular point in time. So, generally, a distributor wouldn't be taking pricing into a tactical pricing system, we probably don't think. They would be more looking at Excel-type reports and viewing what prices their competitors were at.

45 MR MARKS: But when you say prices at a specific point in time, do you just mean - - -

MR PRICE: Generally, the distributors would get probably reports twice a day.

MR MARKS: I see.

MR PRICE: Yes, and in some cases no more than once a day.

5 MR MARKS: Now, you - okay. Now, you mentioned that there are a number of distributors, Reliance by name, others you did not mention by name. Can you give us an idea by number?

MR PRICE: It's a limited number.

10

MR MARKS: Is it a popular service, is really what I want to know.

MR PRICE: No, it's less than five.

15 MR MARKS: All right. Now, any other categories of subscriber that I've missed?

MR PRICE: Not in that context, but if we then go to the services such as the Commission receives, do you want to head down that path or - - -

20 MR MARKS: I'm going to go down that path but not just for a moment, if you don't mind, but in terms of your broad subscriber - - -

MR PRICE: No.

25 MR MARKS: No?

MR CADD: Can I just make one comment on that?

MR MARKS: Yes.

30

MR CADD: We do make available free of charge over the web, Motormouth.com.au.

35 MR MARKS: I want to ask you some questions about that. I wasn't going to at the moment.

MR CADD: It's important, if I get to where you are going to with the original question, and that is that some of the smaller even individual site operators, we suspect, avail themselves of our free service by Motormouth.com.au.

40

MR MARKS: I accept that and I want to ask you some questions about it, but I'm not going to pursue that just yet.

MR CADD: Right.

45

MR MARKS: And I'm not going anywhere with my question that you need worry about. It is really just explaining how you operate. Now, can I then ask you, please, this: Do I understand the position correctly in saying or suggesting to you that you

would have a contract with all of the subscribers, the categories of which you have just identified? Are the contracts essentially the same in their terms - - -

MR CADD: Yes.

5

MR MARKS: - - - or are they individual specific?

MR CADD: They are a one-to-one relationship between us and each individual company.

10

MR MARKS: Yes, but apart from that?

MR CADD: But apart from that, each of the contracts are very similar in nature. Individual legal departments of individual oil companies get particular nuances that they want expressed in those contracts. But as far as the, shall we say, operating clauses of our contracts, they are substantially the same.

15

MR MARKS: All right. I'm not going to ask you about specific provisions of the contracts, but I am going to ask you to provide to the Commission the major contracts, that is, the contracts for your full subscribers, each of the four majors, and also I'm going to ask you to provide your contracts for your not full subscription but the 7 Eleven subscription and the Peregrine subscription, if you would be so kind.

20

MR CADD: No problem at all.

25

MR MARKS: That may lead to us wanting to ask you a couple more questions but I suspect they will speak for themselves. What I wanted to follow up with you now, though, just in this public session was a couple of broad questions. The contracts you have require the subscribers to provide information. Is that so?

30

MR CADD: Correct.

MR MARKS: Mainly in the form of prices.

35

MR CADD: Yes.

MR MARKS: The provision of that information is really pretty essential to you carrying out the work that you do, so it's a bit of a symbiotic thing?

40

MR CADD: We had a manual only service from 1987 through until 1996. So for nine years our service relied entirely on manual service, and it was a cost and efficiency basis that we thought that we could introduce an electronic version, and we did that in 1996.

45

MR MARKS: All right. Now, the full subscribers are required, are they not, as part of their subscription, to contribute timely electronic pricing data?

MR CADD: Timely and accurate.

MR MARKS: And accurate - all right. Now, just completing this line of questioning: The information you collect about the petrol industry is not just limited to prices; am I right?

5 MR CADD: That's correct.

MR MARKS: What other information do you collect?

10 MR CADD: Well, when I did marketing, there were five Ps to marketing.

MR MARKS: Were there?

MR CADD: Price, position, place, people and promotion.

15 MR MARKS: Yes.

MR CADD: And we, as a service company, provide services across all of those. So if you take the P for people, we do mystery shopping to make sure that the service level, when you get to the console operator, is snappy, tight, upsells, all those issues. Perhaps one of the most fascinating, though, is we do P for place, which is we monitor or collect up to 250 fields of information on each petrol station in a service called Net Watch. This allows oil companies and consultants to oil companies to analyse what are the driving forces of petrol purchase in a particular market. Price is only one of the driving forces that forces or encourages a person to enter into a petrol station.

25 MR MARKS: Well, there are 249 others, it sounds like, are there, or - in any event, you say there are 249 fields of information, but what does that mean? You had better describe that in a bit more detail so the Commission understands it.

30 MR CADD: Well, it could be just simply the location of the site. One of the key determinants for the success of a petrol station in the Australian market, which is different from other markets around the world, one of the key determinants, is the visibility of the forecourt area at 75 metres from the site.

35 MR MARKS: At 75 metres; right? I'm with you.

MR CADD: Basically, Australians will not want to turn into a petrol station if they are going to be confronted with queues or delays or any sort of hassles around the pump. It's one of the dynamics which encourages people to go elsewhere.

40 MR MARKS: Yes. So the visibility from 75 metre field - - -

MR CADD: Mhmm.

45 MR MARKS: - - - what information does it convey to those interested in it?

MR CADD: Our surveyors will say very good, good, average, poor, and they will then list the details about it.

MR MARKS: I see.

5

MR CADD: Other fields of information could be the number of pumps, the number of hoses, if it doesn't have a car wash, the size of the convenience store, the number of fridge doors in the convenience store - I can get you the other 233, if you want.

10 MR MARKS: I want all 250, please. But I also want, just identified, not now, but just in subsequent documentation, it would be very helpful to us, but more importantly than that I want to understand what, out of the 250, are the five most popular fields for the subscribers?

15 MR CADD: Well, they don't look at it that way. They - they tend to have large, what they call, modelling companies, typically from overseas, who take this data and work out what nuances they can change on a particular site which may make it more attractive to the passing traffic.

20 MR MARKS: Sure, but I take it that means that either the company itself or its modelling company or its analyst - - -

MR CADD: Yes.

25 MR MARKS: - - - will seek from Informed Sources a field of data to help it in that inquiry?

MR CADD: We are not - we are not privy to what those modelling processes deliver. We know that - we know that they may suggest it could be attractive to put
30 in a car wash, right?

MR MARKS: Okay.

MR CADD: It could be attractive to revamp the convenience store.

35

MR MARKS: Yes.

MR CADD: But all of those decisions are taken by the oil companies based on what they believe their market could - - -

40

MR MARKS: I accept that, but do you not get requests for information for particular fields of material?

MR CADD: Not in that - not in that sense.

45

MR MARKS: Not in that way?

MR CADD: We will typically - because it is so expensive to have staff arrive on site, take photographs, take GPS location measurements, that they will say while you are there, will you collect all of these 250 fields of information. Okay? And I must say that 250 is a notional number.

5

MR MARKS: Yes, okay.

MR CADD: And the intricacies of those questions vary greatly between companies. Different nuances - I can perhaps - - -

10

MR MARKS: But there will need to be a common theme, otherwise the collection would be impossible. Presumably, when you said 250, you had in mind a large number of what might be described as common fields.

15

MR CADD: Correct.

MR MARKS: Yes, okay. Now, you would be in a position where you can provide those or the bulk of those common fields to us just so we can get a feeling for the information which you store?

20

MR CADD: Sure.

MR MARKS: We would like you to do that, please. I just wanted to pick up one element, Mr Cadd, if I may, of a convenience store. What - and there may be a number of subcategories within this, I accept, but what information does Informed Sources monitor about convenience store sites at petrol stations?

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MR CADD: It can - I will just run through the top of my head - the square metres of the store.

30

MR MARKS: Yes.

MR CADD: The number of checkouts.

35

MR MARKS: Yes.

MR CADD: Whether the staff are in uniform.

MR MARKS: Yes.

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MR CADD: The attentiveness of the staff.

MR MARKS: What about the merchandising?

45

MR CADD: We look at the range of merchandising, but it's in a very generalised format. It can be excellent, good, average, below average, poor-type ratings. We look at the prices of a handful of products in those stores. So it may be a loaf of bread, a can of Coke-type pricing, and that then gives some indication of the price

competitiveness of the convenience store. We also look at numbers of fridge doors, whether there is coffee on sale, whether there is hot food on sale. All of that goes together to make an attractive offer to the consumer to enter the site.

5 MR MARKS: All right. Now - that's helpful, thank you. I wonder if I could just complete these questions in this sort of part of our discussion by asking you a question I did not ask earlier, and that is: What degree of subscription Woolworths have. Have they got a full subscription?

10 MR CADD: Yes.

MR MARKS: And I think you said they pay separately to Caltex?

MR CADD: Correct.

15

MR MARKS: Coles does not.

MR CADD: Right.

20 MR MARKS: I put Coles, therefore, in the Shell category, but is Woolworths' subscription a full, national-wide subscription?

MR CADD: Yes.

25 MR MARKS: For both manual and electronic data?

MR PRICE: Correct.

MR CADD: Correct.

30

MR MARKS: Okay, so I can categorise them as a full subscriber.

MR CADD: Correct.

35 MR MARKS: Okay. Now, the next thing I wanted to ask you is this: One of the areas I think you have identified as being monitored by you is the location of sites.

MR CADD: Mhmm. Correct.

40 MR MARKS: Now, can I then, from that answer, just put together, and see if I'm right, the information that you may therefore have that might be helpful to somebody and potentially to the Commission. First of all, can I go to the total number of sites Australia-wide. Now, are you, from your collection activities, able to say how many retail sites there are in Australia at the moment or is that beyond your capabilities?

45

MR PRICE: That would be beyond us at the moment.

MR MARKS: Okay.

MR PRICE: We would have a very strong fix on all of the metropolitan sites.

MR MARKS: Yes.

5 MR PRICE: In the case of the regional centres, if they were owned by the majors or the supermarket companies then we would have a firm fix on those. But if there was a Harry's Garage in Gularganbone, we would not have a strong knowledge of that.

MR MARKS: I see.

10

MR CADD: We'd gather that data not only through obviously electronic feed of pricing data, if the site was on an electronic system, but also our services scan all of the usual databases, telephone databases, internet databases, and we are able to collect scraps of information and put it together into a relatively complete picture.

15

MR MARKS: Well, that may be sufficient, but what you are really saying to the Commission is, look, we don't promise to have actively sought to identify every single site Australia-wide, or if we have we can't tell you that we've been successful, but we do have a reasonably good idea.

20

MR CADD: Correct.

MR MARKS: Okay. Let's ask you then, what, in your assessment, is the current number of retail sites in Australia?

25

MR CADD: That's something I did not bring to the Commission.

MR MARKS: Would you be able to provide that for us?

30

MR CADD: Absolutely.

MR MARKS: That would be helpful, thank you. I am wondering also whether your collection activities involve you assessing data over time.

35

MR CADD: Yes.

MR MARKS: And insofar as my questions now are concerned, would you be able to provide information to the Commission, for example, about the change in site numbers over time and the trends in site locations over time?

40

MR CADD: That will be more difficult. It will depend on where we have been commissioned by oil companies in the past to do surveys. So, for example, we may have collected a survey of Perth petrol stations in I think 2003 and Brisbane in 2003, but we would not have had data prior to that. So we can tell you a snapshot between

45

MR MARKS: Yes, okay.

MR CADD: But we are not - - -

MR MARKS: So between 87, when you started, and 2003, you did not specifically monitor the changes or trends in site location patterns and the like?

5

MR CADD: Correct.

MR MARKS: You have done a bit more of that since about 2003?

10 MR CADD: We would - we have increasingly sophisticated databases, at which point in time the database is able to trawl out and give you that data. I would have to take that under advice. I would have to go back to the IT manager and see what I can do.

15 MR MARKS: See what you can do. It would just be very interesting for such period as you can help us with, to understand what the trend of activities at sites on the ground is, where sites might have gone - you know, total numbers taken into account, where they have gone, where they might be appearing, where the growth is, where the decline is - there might be some helpful information there and I am really looking
20 to you to see if you can - - -

MR CADD: We will have a look at it and see what we can find. One word of warning, though, will be that, for example, a Mobil site could appear as a Mobil site in our earlier databases, remain as a Mobil site, and even today be a Mobil site, but
25 its nature could well have changed from a company owned site, to a commissioned agent site, to a dealer site, and even on to a distributor run site. So all we are able to tell you is the label that the general public would know it by.

MR MARKS: I understand. I want to come back to you about those sorts of matters
30 in a moment in a different context, but just identifying this other information, if you could give us an idea, for which we would be grateful, of the number of sites Australia-wide.

MR CADD: Mhmm.

35

MR MARKS: Secondly, the information I just asked you for about movements and locations would be very helpful, if you can provide it. Thirdly, I wondered if I could ask you about - subject to the caveat you have just made - whether you can help us with the number of sites which are currently operated by the majors - and by that I
40 mean the oil refiner majors. Now, let me give you an example of what I've got in mind. Your activities being, as they are, principally metropolitan, you have a good idea of site numbers in each of the eastern seaboard capital cities. I take it from that information you could fairly easily glean the numbers of sites which are owned or operated by the majors?

45

MR CADD: Can I just jump in there and perhaps give an example? If we look at the Melbourne market - - -

MR MARKS: Yes.

MR CADD: - - - BP, for example has lots of sites.

5 MR MARKS: Mhmm.

MR CADD: We also know that they have a multi site franchise arrangement with a marketing company. We, like the general public, would not be able to tell you the difference between those to a high degree of accuracy.

10

MR MARKS: I understand that. But what you could do, couldn't you, is identify all of the BP sites?

MR CADD: Correct.

15

MR MARKS: There might be a question as to whether they are then company owned and controlled, whether they are franchise operated.

MR CADD: Absolutely.

20

MR MARKS: There might be all sorts of interesting questions that you could ask.

MR CADD: Yes.

25 MR MARKS: But it would be easy, would it not, to identify in Melbourne, say, the number of BP sites.

MR CADD: Correct.

30 MR MARKS: Likewise, I suspect, the number of Mobil sites.

MR CADD: Correct.

35 MR MARKS: Now, you have provided us already with information, under the heading "Oil Extraction" - I'm not sure whether that's got a particular meaning to it, it's a term of art or whatever - but there is an amount of information here in the little bundle that I've got just about the sites, the count of sites per brand, supplied at a particular price on a particular day. That's what you run your business by.

40 MR CADD: Right. Correct.

MR MARKS: What I would like to know, but know a little more accurately than I can glean it from here, is this - just to take your example in Melbourne. I want to know how many sites are in Melbourne.

45

MR CADD: Would you like to define "Melbourne" for us?

MR MARKS: Oh, Melbourne and metropolitan area - you might have to help me with that.

MR CADD: Well, this - - -

5

MR MARKS: You might have to say, well, it's Melbourne out to this point, or it doesn't include Geelong, or it - I'm going to be, obviously, guided by your description. But I want to know Melbourne metropolitan area, governed most likely, I suspect, by the site collection work that you do. Can you help me with that? It doesn't have to be right now but - - -

10

MR CADD: We would be happy to show the Commission the tools that we've got and any data that we've got on that, but it is one of the key issues, when people do comparisons between cities, as to what is defined as a city. So, yes, as long as we can sit down with the good - - -

15

MR MARKS: I understand your desire to be independent. I don't want to impeach that desire. What I do want to do, though, is get your guidance, Mr Cadd, as to what might be said, for price cycle purposes and otherwise, to be a metropolitan area.

20

MR CADD: Right. okay.

MR MARKS: Within that reality - - -

25

MR CADD: Yes.

MR MARKS: - - - I want the following information - - -

MR CADD: We can do that.

30

MR MARKS: - - - I want the total number of sites. I want the number of sites that are branded to each of the major players, and in the case of the supermarket alliances that should be - in Shell's case, it would be straightforward; in Caltex's case we might have to ask a further question or two, but the information should be easily able to be provided. That would be helpful.

35

MR PRICE: Can I just say that that information is already in the Commission's hands.

40

MR MARKS: Is it?

MR PRICE: Correct.

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MR MARKS: Well, the form in which it is in the Commission's hands I'm not sure about, but if it is already in the Commission's hands, I would be very grateful to have it confirmed.

MR PRICE: The Commission has a one-year subscription to the Net Watch product.

MR MARKS: And does that provide all of this information?

MR PRICE: Correct. We are happy to summarise it, but that data is already in the Commission's hands.

5

MR MARKS: Okay, let's have another look at that and we will talk to you about what we need, but that would be helpful. What I would also like to know is that information for - I haven't really mentioned Perth. You do collect information from Perth but you do it through the Perth, WA collection program, the state - - -

10

MR CADD: They have a publicly available website. We access that.

MR MARKS: You access that, but you collect information from it, do you not?

15

MR CADD: Correct.

MR MARKS: I want it for that as well, please, so that we have that understanding and you can assist us to the extent that our information is deficient. Because at the end of the day, when we, in this report, identify that information, we want it to be right and we want it to have Informed Sources' blessing, to the extent that it can be given it.

20

Can I then ask you, please, about the non-subscription services, just to get a bit of a feeling so that we complete the Informed Sources picture. You said to me a moment ago, I think, Mr Cadd, that you do provide some information to government agencies?

25

MR CADD: Correct.

MR MARKS: You'd better be a bit more specific, if you wouldn't mind.

30

MR CADD: Well, the Commission receives summary data. By "summary", we mean brand and price distribution reports, but typically not, unless requested via a section 155 notice or by a particular inquiry such as this, they do not get site specific details. That's what we refer to as "summary information".

35

MR MARKS: All right. And what is the - the summary information is just provided for broad statistical purposes, is it?

MR CADD: We - we were approached by the oil industry back in 1992 - and were asked if we could invent a non-site specific summary service that we could provide to the then-Trade Practices Commission to allow them to understand what was going on in the marketplace.

40

MR MARKS: All right. That still goes on, no doubt?

45

MR CADD: That's correct.

MR MARKS: What other government agencies do you provide information to, as the ACCC?

5 MR PRICE: We provide information to the Victorian Government, and to the Western Australian Government in terms of city averages, daily city averages for the eastern seaboard. We are currently doing some work with the Queensland Government in terms of the petrol inquiry in Queensland, and have, I guess, previously provided information to the Queensland Government. The New South Wales Government, no; and we have previously provided information to the 10 Tasmanian Government, but not currently.

MR MARKS: Again, it's broad statistical information, is it?

15 MR PRICE: Correct. Basically, the Commission and - the Commission gets what we call a 9 am price distribution report, which provides the range of prices across each city and gives how many sites are available at each particular price point. In terms of the information to the Victorian Government, it's more on a city average basis broken into regions.

20 MR MARKS: Can I ask you, the other public service or service that I know you provide is the Motormouth service?

MR PRICE: Correct.

25 MR MARKS: Could I ask you some questions about that. Tell me a bit about Motormouth, if I could.

MR CADD: Can I ask Alan Price to cover those questions?

30 MR MARKS: Yes, you certainly may.

MR PRICE: I guess Motormouth is a strategic imperative for us, in terms of Informed Sources as a group looking to own the online petrol monitoring market. Increasingly, we focus on being a content provider. We do run our own consumer 35 website, Motormouth, but our focus over the last 12 to 18 months has been providing data to the likes of the RACV, the NRMA, soon the RACQ, so their members can search on their websites for petrol prices.

40 MR MARKS: I see.

MR PRICE: We also provide that content service on to Cars Guide.

MR MARKS: On to? What is that?

45 MR PRICE: Cars Guide, which is an online car buying service which is owned by News Limited - to the Austereo Radio Network and IGA supermarkets. We also provide data to the mobile phones via the Telstra Next G service, through a product called My Fuel, but the data is sourced from Motormouth.

MR MARKS: Okay. So if I understand that correctly, you have some arrangements with the automobile clubs of the various states - you have mentioned RACV and RACQ; I take it that you have one with the NRMA, too - - -

5 MR PRICE: Mhmm. That's right.

MR MARKS: - - - the largest one. You allow them then to publish what is effectively Motormouth data on their website, is that so?

10 MR PRICE: Correct.

MR MARKS: Do they pay you to - for that right - - -

MR PRICE: Correct.

15

MR MARKS: - - - or is it part of your - your strategic imperative that you provide it at no cost?

MR PRICE: We charge them for it.

20

MR MARKS: Okay. Now, that website material comes direct from Motormouth, does it?

MR PRICE: It does, but - - -

25

MR MARKS: Is it the same material?

MR PRICE: It - the prices that are seen on Motormouth are exactly the same as you see on those other websites.

30

MR MARKS: Yes. Well, what can I find on - - -

MR PRICE: I guess I make the point that it is only the manually collected data.

35 MR MARKS: I understand that.

MR PRICE: It is not the electronic data.

MR MARKS: Now, why is that?

40

MR PRICE: Because Informed Sources owns the manual data that we physically collect in the marketplace. The electronic data is actually owned by the subscribers to our service, a la the BPs and the Mobils.

45 MR MARKS: I understand that, and you are going to talk about technical and legal matters, but all of that information is provided to you, is there some contractual limitation - - -

MR PRICE: Correct.

MR MARKS: - - - upon you publishing that electronic information?

5 MR PRICE: Correct.

MR MARKS: Is that in the contract with - - -

10 MR CADD: In the contracts, the oil companies who provide their site specific pricing data, they - their ownership of that data is maintained and they have the right to say who can see that data.

15 MR MARKS: Accepting all of that is so, my point to you really is this: Do you have a provision in the contract which prohibits you from publishing that information on Motormouth?

MR CADD: Without their acceptance, yes.

20 MR MARKS: I see. Have you ever asked whether they would accept, to ensure that Motormouth was a full subscription, or a full - as full as possible an appraisal for market users, whether they would be prepared to allow their information to be published?

25 MR PRICE: We have endeavoured to encourage them to allow us to put the prices on and, to date, we have not had any success.

MR MARKS: Have you endeavoured this year?

30 MR PRICE: This year? No.

MR MARKS: No? So you have not endeavoured in the context of or in the lead up to this inquiry to seek the provision of more information?

35 MR CADD: No.

MR MARKS: Tell me this: Do you think the absence of the electronic information detracts from the service which you provide on Motormouth?

40 MR PRICE: It would be a fuller service if we had the electronic prices there. At the moment, the number of sites covered is sort of probably between 60 and 65 per cent of the market.

45 MR MARKS: Yes, I see. And because it is a manually collected set of material - and I will come to your data collection methods in a moment, but it is necessarily, therefore, much less frequent?

MR PRICE: It's typically a twice a day snapshot.

MR MARKS: Yes, okay. So it's just a snapshot?

MR PRICE: Twice a day.

5 MR MARKS: I understand.

MR CADD: Understand this as well, that Motormouth is a free service.

10 MR MARKS: Yes, indeed I do understand that.

MR CADD: If we were to put - encourage the oil companies to put electronic data on to the Motormouth service, it would be extremely difficult for us to sell electronic data via our full subscriptions.

15 MR MARKS: Then why have you, in answer to my previous question, said that you have indeed asked for permission from the oil companies to do just that?

20 MR CADD: Because we believe that there would be opportunities for them to put perhaps time-delayed data on to Motormouth which would help people in deciding which was a better site to go to, rather than actually having the speed, almost instantaneous prices that are available via our services.

25 MR MARKS: So what you are really saying to the Commission is, look, bear steadily in mind that is a reality, we are encouraging them to put more information on to the Motormouth site to make it a more accurate, more fully informed service, but there is the reality that a line needs to be drawn, some differential may need to be created?

30 MR CADD: As soon as you do that, then you have the problem of the timeliness of the data on Motormouth versus the timeliness of the petrol pump price that the customer buys and - - -

MR MARKS: I understand.

35 MR CADD: - - - it has been expressed to us by more than one company that they do not wish to get into a situation where a price could be seen on Motormouth, and by the time the consumer arrives at the petrol station, the price could be higher or lower, and that then introduces questions into the petrol buying public's mind.

40 MR MARKS: But isn't that more likely to happen the less often or the less frequently you provide the consumer with the information? In other words, that is more likely to be the problem with the present data than the proposed more comprehensive data?

45 MR PRICE: It is, but it's consistent. I mean, the way the data stands at the moment, and people understand it is collected twice a day, they have an expectation that that data is only available - we collect in the morning, we collect it in the afternoon, but the reality of the situation is, under the current price cycles, that typically it's really

only on the day that the cycle rises that there is any angst for consumers, because generally when they go to a site, it is more likely the price is less than what is appearing on Motormouth.

5 MR MARKS: All right. Let me then ask you this question: What have you asked the full subscriber majors, in terms of your desire to increase the Motormouth website capability? I asked you before, Mr Price, and you said, look, we've asked them, they have not agreed. Mr Cadd has said, well, look, there are difficulties anyway. Let's, if we can, address the tension - what have you asked them for?

10 MR CADD: We have asked them - I have been the person who has been asking it and we've asked them - - -

15 MR MARKS: You're the man I should ask.

MR CADD: - - - would they have interest in providing data, and it's a very short conversation.

20 MR MARKS: Yes, it would be if you put it that way, but if you asked them for specific information or for permission to do a specific thing, it might be an entirely different conversation. Have you come up with a proposal of any form which might enable more up-to-date data more frequently without necessarily destroying the subscriber relationship in the way in which you just outlined to me?

25 MR CADD: We have not been able to see a way of doing that.

MR MARKS: Yet. Is that something you are still looking at?

30 MR CADD: The whole area of availability of pricing data is one that we - and the availability to the public is one that we are continuously pursuing. As Alan said - as Mr Price said - - -

35 MR MARKS: I am just asking you - I understand the mantra, but I'm just asking you the practical realities here. Let me give you an example. You might ask the petrol companies if they would be prepared to let you provide data for two or three or four further designated times during the course of a day from the electronic equipment. Without providing all of the data, there could still be a huge gap between what they give you and what you, in turn, provide. I am trying to see if you have made any endeavours - - -

40 MR CADD: And that is one of the offers that we have put.

45 MR MARKS: I just asked you about that a moment ago. You didn't volunteer that information. Is there any other offer you have put that - this is an important matter for the Commission, Mr Cadd, because you have - you see good to be served from the Motormouth website. The Commission, likewise, sees that the website might have something significant to offer. I want to explore where it's going. You have, I know, made some changes to it already in recent times to improve it, and I am

wondering if we can do more. I'm not meaning to press you unduly but I do want to understand the limitations of what you think you are capable of doing.

5 MR PRICE: One of the suggestions that we have made to the oil retailers is that if they had their prices on there, there would then be the ability against each site to identify specials that were available in their convenience stores. So there is a two for one Coke offer on, Coles Express or - there's a two for one Coke offer on the Coles Express, or there's a half price roast chickens at Woolworths sites, et cetera.

10 MR MARKS: Okay. What you might call peripheral or extraneous information but, nevertheless, it might interest some Motormouth users.

MR PRICE: Yep.

15 MR MARKS: But just in terms of the availability of prices and the presentation of as accurate as possible data, to follow up my question to you, Mr Cadd, I think I did ask you a moment ago whether you might have put to them or whether it might be worth putting to them, and you said you had, a sort of, perhaps a three or four - - -

20 MR CADD: Delayed.

MR MARKS: - - - and it might be delayed. What has been the response to that?

25 MR CADD: It doesn't - it doesn't get into the business imperative part of their business or our business - - -

MR MARKS: The answer is that they have given a negative response, said, "We're not interested in doing it."

30 MR CADD: And every indication from similar websites overseas is that it is not a successful tactic at the moment.

MR MARKS: Yes, I see.

35 MR CADD: If we could see - and that's why we have continued to pursue the mobile phone route with the Telstra opportunities, because we believe that this is where it might go.

MR MARKS: Yes, yes.

40

MR CADD: The concept of the petrol buying public going onto a website and looking for prices and then going out and buying I think is flawed. I do not believe that the majority of the petrol buying public want to do that. That is certainly held up by the startling lack of success of similar websites overseas.

45

MR MARKS: Yes. So you think they - your view is, in your position in the business, that the MotorMouth-type model is not, long term, going to work? Or that's perhaps overstating it, but it's not, long term, going to be a very popular idea?

MR CADD: We believe that in the future there will be a merging of technologies and data to facilitate the purchase of petrol from a competitive site as you are driving home, needs to be fed by data, we want to be in that space.

5 MR MARKS: So the global positioning system technology which we now see in cars is expanded to include that, you would be there like a shot?

MR CADD: Correct. In fact, that is why we are in this business.

10 MR MARKS: But you are not there yet.

MR CADD: The technology in the industry is not there yet.

15 MR MARKS: That's why you're not there yet. What I want to ask you is: How popular is the Motormouth website? I know that's a very broad question but you can measure popularity by reference to site hits, you can measure it in all sorts of ways. First of all, can you answer the general question and then I might ask you.

20 MR PRICE: Okay. We have approximately 100,000 registered subscribers to Motormouth. It's very difficult to tell how active those subscribers are, because by measuring IP addresses, it's very difficult to tell. We send approximately 40,000 emails, free emails a week, and at the moment Motormouth is registering about 3.5 million hits a month on the Motormouth website. But, you know, hits don't mean anything. And we do not - - -

25 MR MARKS: Do you have to be registered to get into the site?

MR PRICE: No. No.

30 MR MARKS: No? Okay.

MR CADD: We had a business model in the early days which would have seen clever buyers saving money and, therefore, paying a subscription. One of my all time worst business ideas.

35 MR MARKS: It didn't work, that one? Now, tell me then about one that might have worked a bit better, tell me about the mobile phone service. You say you provide Telstra with information. I can then ring up and request it? I have to pay something, don't I? How does that work?

40 MR PRICE: The current Telstra NextG service, which will expire on 31 October, is taken up by a very limited number of people. Essentially, if you are on the consumer portal on the NextG network, you can access a mobile site, like a mobile internet site, on your mobile phone and you can do a suburb and postcode search from within your phone.

45

MR MARKS: Okay. How much does it cost to ring up and - - -

MR PRICE: It doesn't - it currently doesn't cost anything. Telstra pay us a nominal fee.

5 MR CADD: It is bundled, though, as part of a package of services that you pay for, I think, under the NextG.

MR MARKS: I think I just got your impression from your 06 letter that you did have to pay some sort of charge for the SMS service, but apart from the phone - - -

10 MR PRICE: Sorry, no, the SMS service is a different service. We operate an SMS service out of Motormouth.

MR MARKS: What is the other one - if it is not the SMS, what is the other one?

15 MR PRICE: It's a service where you go on to a mobile phone, look at an internet site and you search exactly the same as if you are on the web.

MR MARKS: As if you are on the web. I see.

20 MR PRICE: The SMS service is operated by Motormouth and the number of subscribers is probably less than 100. Because people have to pay to get an SMS.

MR MARKS: Yes. How much is it for a - - -

25 MR PRICE: It's about 12 cents a call.

MR MARKS: A call?

MR PRICE: Yes.

30 MR MARKS: In addition to ordinary call charges?

MR PRICE: Well, whatever they - - -

35 MR MARKS: All right. Now, looking at the website, it did occur to me - although I certainly don't know anything about these things - that the coverage of some areas, metropolitan Melbourne in our case, was not comprehensive.

MR CADD: Correct.

40 MR MARKS: I wanted to really ask you this: Is it your intention to make the site more comprehensive? What are your intentions with Motormouth?

45 MR PRICE: I guess the sites that we collect at the moment are those sites that the subscribers to the manual service, or manual part of OPW, Oil Price Watch, have required from us, and those subscribers are essentially interested in independent sites. So we are driving sort of set routes in the city, picking up independents, and as we go past major sites we collect those sites as well.

MR CADD: Can I point out that the very nature of the industry is that the sites that we're going to collect are the lower-priced sites and, therefore, are most likely to be of interest to somebody who is a price conscious buyer who is going to go onto Motormouth. So although we do - - -

5

MR MARKS: That, I imagine, dictates the current site identification and suburb identification that appears on.

MR CADD: Correct.

10

MR MARKS: I am wondering really are you going to expand to make it more comprehensive across the metropolitan areas, or is that not the current plan?

MR PRICE: I guess that as we obtain more people like Cars Guide or Austereo as content partners, then our intention will be to invest those partnership fees back into the manual service and to try and expand the coverage.

15

MR YOUNG: But no present intention? You haven't got an identified present intention to do that?

20

MR PRICE: Not particularly. I mean, in the last six months we have expanded the service into the - into the eastern suburbs of area of Sydney, because we had much lower coverage there.

MR MARKS: Yes. Any expansions in Melbourne in - - -

25

MR PRICE: Not at moment, but I'm sure the RACV would be delighted to see it.

MR CADD: I could add that we have even tried - we have had approaches from various single sites who have asked why they have not been on the Motormouth website and we have told them that we would be happy to include their prices if they were to pay a nominal fee on a weekly or monthly basis to help fund us drive past their site to make sure that the data was accurate. To this date, no site has taken up that offer. So we are getting into the area where it's marginal benefit to the site to do that, it's marginal benefit for the consumers to log on to websites. Not there yet. We want to be in that space but it's not there yet.

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35

MR MARKS: Okay. Now, that really perhaps is a suitable point at which to ask you some questions about your data collection methods. The information that I have had provided to me is identified as commercial-in-confidence. I notice, though, when I compared it to the public information which had been provided to the Committee Secretary for the Senate Economics Committee last year, that it largely covers the same fields, perhaps with a little more detail. Do you have any sensitivity about me asking you some questions about this or - - -

40

MR CADD: Can we tell you on each particular question whether we - - -

45

MR MARKS: You can. I mean, there are two ways we can do it. I can just ask you some questions and you can tell me if you are sensitive. I can deal with the topic in a confidential session. I would prefer to do it publicly, if I can, given our obligations under the Act, but I need some guidance from you because it may be easier to do it all at once.

MR CADD: We are keen to ensure that the intricacies of our technical set up are not made known to our competitors. So, as long as we stick outside of that.

MR MARKS: All right, so why don't I ask you some questions; if you do have some difficulties, we can go back to those areas.

MR CADD: Let's give it a go.

MR MARKS: The manual collection first, if you don't mind. I gleaned from it that - I'm going to ask you some questions about how it's conducted, I hope you don't mind.

MR CADD: Certainly. Yes.

MR MARKS: I gleaned from it that it's essentially conducted by a number of - you call them runs but they are sort of locational, really like tracks that are undertaken every day by the staff who are engaged casually or part time by Informed Sources.

MR CADD: All of our staff are - all of our staff we tend to provide them as a permanent part time. We find that we get more accurate and more consistent data collectors and, therefore, the veracity of the data that is better. They drive a particular route run.

MR MARKS: That's what I mean by the track.

MR CADD: That's right.

MR MARKS: Is it the same every day?

MR CADD: No, it's not, and indeed as we swap between drivers, so that places the collector outside of the site at a different time of day, and this allows for a randomising collection service so that we make sure that the sites are not changing their prices for our benefit.

MR MARKS: How, then, does that fit into the information we've got concerning the timing of the runs? The timing of the runs, if I am correct, appears to be or to involve a couple of runs on each weekday?

MR CADD: Correct.

MR MARKS: Is that so? And then two runs on Saturdays - - -

MR CADD: Correct.

MR MARKS: - - - generally speaking, the public holidays excepted.

5 MR CADD: The Saturday runs are slightly shorter.

MR MARKS: Are they? There is a run on Sundays, as a rule?

MR CADD: Correct.

10

MR MARKS: But only one.

MR CADD: Correct.

15 MR MARKS: If there are - the runs would appear to be at the same time every day?

MR CADD: Except for the Sunday, correct.

20 MR MARKS: Except for the Sunday, of course, but what you are really saying is that the sites that are visited may not necessarily be the same, is that so? How does it work in practice to ensure the sporadic or haphazard examination that you say protects data accuracy?

25 MR PRICE: The time windows are the same, because typically, the subscribers want to see the data by 8.30/9 o'clock in the morning, so you can't start earlier than sort of 5.15, because some sites are not open.

30 MR MARKS: Yes. So it starts a little later than that and it runs right through to the end of peak hour, almost?

MR PRICE: Correct.

35 MR MARKS: Which is a probably inefficient time to be driving around but it's probably a very necessary time for data accuracy. I'm not sure. Why those times?

40 MR PRICE: Well, I guess it's a necessary time. We also try to run against the traffic as much as we can, in the reverse order. I guess, as Mr Cadd said, by us using different drivers who start at different points on their tracks, to use your words, then they are arriving at the sites at a slightly different time, compared to somebody who might have started a track five kilometres back. But, generally, they are following the same path and arriving at slightly different times.

45 MR MARKS: I see. All right. Gentlemen, do you have at your disposal the material that you provided us on this topic? No?

MR PRICE: I have got an understanding of it, yes.

MR MARKS: I know you have. I just don't want to encroach into matters that - I want to ask you about a comment that appears at the top of page 2 of the document I have. It says - I hope you don't mind if I read this out:

5 "Brand averages between 6 am and 8 am can be misleading at times as data particularly for independents needs to build during the morning."

I just wanted to ask you if you could explain that to us so we understand it better.

10 MR PRICE: Sure. I guess, as an example, if we are collecting prices in Brisbane and somebody was looking at a report at 6 am and we were collecting, say, Matilda and we had only collected two Matilda sites by 6 am, in perhaps one geographic location it may not be a good representation of Matilda across the Brisbane market.

15 MR MARKS: I see. It's really a matter of a function of site numbers.

MR CADD: Correct.

20 MR MARKS: I see. All right. Now, just to take one market, if you could give us a feeling for this, take the Melbourne market, how many staff do you have travelling around on these runs, say, to take a weekday morning, let's take a 5.30 run - how many staff?

25 MR PRICE: In Melbourne we operate four runs in the mornings.

MR MARKS: Is it the same staff that do this every day or do you mix it up - - -

30 MR CADD: No, that would be a safety issue. We rotate the staff and we have back ups. People are allowed to get sick in our company and still the service goes on.

MR MARKS: I see, so you do a number of different people doing it?

MR CADD: Correct.

35 MR MARKS: How many part timers do you employ in Melbourne?

MR CADD: I would have to take that on notice but I think - - -

40 MR MARKS: Just give us an idea.

MR CADD: - - - you can assume it's of the order of 15.

MR MARKS: Is it similar in the other - - -

45 MR CADD: Correct.

MR MARKS: You say the runs collect data from about 2400 sites a day?

MR CADD: Mhmm.

MR MARKS: Is that most of the sites in the metropolitan areas? Can you tell us just what it represents?

5

MR PRICE: Roughly it will be between 60 and 65 per cent of the sites.

MR MARKS: Okay. Now, you say roughly. I could ask you about what proportion you are really getting out of each of the cities. Is it roughly 65 per cent in all of them?

10

MR PRICE: In broad terms, yes.

MR CADD: And if that's important, we can come back.

15

MR MARKS: You can get us that data.

MR CADD: Yes.

20 MR MARKS: But it's a substantial proportion of the sites?

MR CADD: Correct.

MR PRICE: Correct.

25

MR MARKS: Can I ask you just about the electronic collection material. I have had a look at that. There are a few questions that came to mind. First of all, I want to understand - and this comes back to something you have already raised, Mr Cadd, in a different context - what the electronic information is depicting. I really want to know how wide the coverage is. Let me take an example. Let me ask you about Caltex, it's just an example. You go out and you collect site information. That's fine. You just go into Caltex branded sites. Now, I take it that your manual information covers both Caltex branded sites and Caltex/Woolworths supermarket sites, if I can loosely describe it as that?

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35

MR CADD: Our route runs are designed to pick up data from sites that we are not getting electronic services from.

MR MARKS: You're not getting - that's interesting.

40

MR CADD: However, in order to drive to the independent site, we go past other sites that are on the way that we are getting electronic data from. We will collect the manual data at those sites as well, because this adds as another data point and it also adds as an audit point for us to ensure that the electronic data that we have for that particular site is matching the price that is on the price board.

45

MR MARKS: Yes. Well, now, let me just tap into that a little bit further. Taking the Caltex example, Caltex provides you with electronic data at least covering, I imagine, its Caltex-controlled sites; is that so?

5 MR CADD: Correct.

MR MARKS: Does it extend to Caltex sites that are branded but not owned or controlled by Caltex? What I'm thinking of is their independently branded sites, of which they have a large number. Does the information Caltex provides you extend to that?

10

MR PRICE: If the Caltex brand appears on a site then there is an obligation on Caltex, under their contracts, to provide us with prices.

15 MR MARKS: I see. So that would cover - that means, then, that the information you are getting, take Caltex, take Melbourne, just for a market and a participant, would include all Caltex branded sites?

MR PRICE: Correct.

20

MR MARKS: That would be irrespective of whether they were a company owned/company operated, company owned/franchise operated, or simply independent branded sites?

25 MR PRICE: Correct.

MR MARKS: Let me take the question to the next step: What information then in relation to Caltex do you need to focus on manually that you are not getting electronically?

30

MR PRICE: In terms of the Oil Price Watch service, we don't really need any manual prices to be collected on Caltex sites, except, as Mr Cadd said, we use that as an audit - - -

35 MR MARKS: I understand that, I understand the audit.

MR PRICE: - - - and it could well be that the price we collect manually may be a later price than what we have already got from Caltex electronically.

40 MR MARKS: Yes. Okay, so to that extent, it may, and you emphasise "may", be a different price.

MR PRICE: Correct.

45 MR MARKS: But that's not the focus of things. In the case of Caltex, and I'm only using Caltex as an example, you have a comprehensive set of electronic data from Caltex?

MR PRICE: Correct.

MR CADD: Let's be clear that if Caltex had a supply arrangement for fuels to a site that was not running a Caltex brand and not running Caltex software, et cetera, then
5 obviously - - -

MR MARKS: I'm only talking about the Caltex brand. I understand that. Can I ask you, then, say, for the others - say, Mobil - again, are you covering all Mobil branded sites?
10

MR PRICE: Exactly the same as I said for Caltex.

MR MARKS: All right. Now, what about BP?

15 MR PRICE: Correct, the same.

MR MARKS: Exactly the same? Irrespective of whether BP controlled the site or whether it is franchise owned and - - -

20 MR PRICE: Correct.

MR MARKS: I see. All right. Now, in the case, then, of say, BP, what gap is there, what information do you not get electronically that you would need to get manually? I'm searching for this gap you can see between Mr Cadd's answer to me - "Well, we
25 need to make sure that we get and we focus with our manual data on getting information that we cannot get electronically" - I'm trying to understand what that means in practice.

MR PRICE: In practice, it means independent sites.
30

MR MARKS: Just the independents?

MR PRICE: Yes.

35 MR CADD: The non-subscribers.

MR MARKS: Okay. So it has no real meaning in relation to any of the majors because you have every branded site in the metropolitan area?

40 MR PRICE: Correct.

MR MARKS: That's helpful. That's all I needed to know. Let's talk about the independents. You are collecting from independents, of course, because the majors, who are your subscribers, want that information and it makes it more comprehensive.
45 You do have, I think you have indicated to us, a couple of independent subscribers, but you don't have many.

MR CADD: That's correct.

MR MARKS: Is that because of the size of the subscriptions, or why is it?

MR CADD: Clearly not, because if that was the case we would not have sold to any of the independents, and one of the - - -

5

MR MARKS: Independents might have different strategies, I suppose.

MR CADD: One of the things that we have always been careful to maintain, and it was a requirement of our receiving approval from the Bundes Kartell Amt up in Germany, was that there would be no disadvantage, either in pricing or structuring of our services to the smallest customer.

10

MR MARKS: Now, I think you said in your October letter that you have sought to expand the reach of your customers, the reach of your subscribers. Can I - you say:

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"We have also approached a number of the independent brands to join the service. Our marketing efforts are ongoing."

That was a year ago. Now, I take it that you have approached most of the independents.

20

MR CADD: Correct.

MR MARKS: Have you approached all of them? Well, it's a pretty - I'm interested in the medium to large independents, Reliance, Liberty - those sorts.

25

MR CADD: Absolutely. Absolutely.

MR MARKS: And you have not got any of these independents?

30

MR CADD: No.

MR MARKS: And I suggested to you that the reason might be because of your subscription. You say, no, that's not the reason.

35

MR CADD: Mhmm.

MR MARKS: I take it that the independents have given you reasons. Can you just broadly indicate to us why the independents don't want to be in this process?

40

MR CADD: I think you need to join our marketing team for a week. They tend to say, "Thanks, but no thanks", when pushed for - - -

MR MARKS: For example, one independent - Apco - said to us in open hearings - there's nothing secret about it - "Look, we approached Informed Sources at one stage but, you know, the cost was a significant issue", the subscription cost. Now, that was only one, but I'm asking you really whether your subscription fees are an issue for the independents.

45

MR CADD: They're frankly not, but if they have a structure in place of dealers and console operators driving around the block before they start service, feeding their data requirements, many of them are reluctant to change just because "we have always done it that way". So it's not - if you do the analysis on the cost-benefits of our service versus driving around, even as far as taking into consideration the potential for accidents, injuries and the like whilst driving around, our service is very affordable. But people choose not to do that. We have - we have continuously sought to market our services - - -

10 MR MARKS: Please go ahead.

MR CADD: Continually sought to market our services to, for example, Matilda, Matilda in Queensland, and from the very early stages, because we started our service in Brisbane and Matilda has been in operation since the very early stages, and Mr O'Keefe occasionally rings us up and says, "I would like to talk to you about the data", and then goes away again. It seems to be more in relation to his discussions with the Commission that he rings us up to talk to us about data needs rather than his marketing needs.

20 MR MARKS: Yes, okay. Just on that topic - and I know I am digressing a bit, I hope you will forgive me, I want to come back to data methodology collections in a moment, but one thing that did occur to me earlier to ask you was whether you receive, with all the data you collect from time to time, requests from your key subscribers to provide specific information. By that, I mean, you know, not necessarily pursuant to a specific engagement but you might get a specific request: "Can you, please, provide us with this information", or that information. Does that happen very often?

MR CADD: It doesn't happen very often, but it does happen. We have a responsive IT department. It would appear that we are much more responsive than many oil majors' IT departments, and it's, frankly, a lot quicker and cheaper for them to ring us and say, "Hey, please can I have a graph of 2004 because I'm doing a study on something" and they will - we will produce the graph, send it off to them and charge them for it.

35 MR MARKS: If they were to ring you up, say, it was Mobil, and say, "We're looking at the Melbourne area and we want you to identify for us the location of every BP site in this area", it might be in the area that they are interested in expanding their operations. Is that something which Informed Sources - is that the sort of engagement or retainer or request that Informed Sources would be able to meet?

MR CADD: We can meet it. They would typically meet it out of our Net Watch service that I talked about before, this is the 250 fields of data, and they can then look at a Google map interface, which shows exactly where the sites are, and they can then make their own decisions.

MR MARKS: Okay, but the nub of my question really is that if specific requests for information were made by subscribers, that could be accommodated?

MR CADD: Correct.

5

MR MARKS: Thank you. Just going back to the questions about - that I was asking you a moment ago about data collection, can I just get you to explain, if you would, in the electronic context, a methodology difference which arises in this description I have. Some - and, again, please tell me if there is any sensitivity about this. It's just the manner in which data is provided. It appears that some, without naming particular parties, some of the majors provide information in the form of a refresh file and change records, as you describe them.

10

MR CADD: Correct.

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MR MARKS: Others provide update from card transactions.

MR CADD: Correct.

20

MR MARKS: Now, can I get you to, very briefly, describe the difference?

25

MR CADD: Yes. Okay. Some - card transactions, first of all - depends on the sophistication of the onsite controller or the point of sale device that they have at the site. Some companies, it may be easier for them to take a feed from a card swipe of their own petrol branded card, because that will have not only the litres but also the price embedded in the transaction and they can take that as a feed of price at the site at that time. And if you assume that there is a reasonable flow of card transactions through a site, then similarly we will get a reasonable flow of card transactions. That approach - - -

30

MR MARKS: Is that assumption borne out in reality? Is the fact that you - - -

MR CADD: On good sites, yes; on the poorer sites, no.

35

MR MARKS: And on the average site?

MR CADD: It's okay.

40

MR MARKS: It's okay but it's not ideal?

MR CADD: And that's why we also have the manual drive by calling on those sites, because, as Alan Price said before, it's an opportunity to perhaps get a more up to date time stamp on what the local price is.

45

MR MARKS: Yes, I see.

MR CADD: Then you move on to those companies who, when they make a price change at the site, there is a forced through price change record, and that price

change record flows through to their online transaction processing system in their company and that then is captured and fed through to us. And then finally, there are those companies who poll their sites electronically on a regular basis and that tests what the current price is at the site.

5

MR MARKS: And have you got any participants who are providing information on that third - based on that third methodology at the moment?

MR PRICE: Yes, correct.

10

MR CADD: Yes.

MR MARKS: I'm wondering, then, more broadly, whether the data collection process that you've described here is similar to the process or the collection processes that you have in place in the other markets which you monitor, and I'm thinking really of the overseas markets.

15

MR CADD: The overseas markets? Yes.

20

MR MARKS: I was just going to identify them. I think you do undertake data collection activities, you said, in Germany.

MR CADD: We have done. We are not currently doing it in Germany. We are also undertaking collection services in Norway.

25

MR MARKS: In Norway. Can I just take Germany? You have ceased doing it in Germany; is there any reason for that? Is it change in the market or - - -

MR CADD: Let's just say that the market conditions in Germany are a little bit different to the competitive environment that they are in Australia, and I'm not sure that all of the participants in the marketplace in Germany really wanted to have more accurate data.

30

MR MARKS: I see. I only mentioned Germany because in your October letter to the committee you made some - or you underline the German operation as being an operation you were proud of.

35

MR CADD: Correct.

MR MARKS: And an operation you participated in fully and that you were piloting that operation for expansion - providing fuel pricing data, exchange - information across Germany.

40

MR CADD: Correct.

45

MR MARKS: But I take it that's not met with the success that you had first hoped?

MR CADD: That's correct.

MR MARKS: Is the German, or the German markets that you were monitoring, were they markets in which price cycles occurred?

MR CADD: They were.

5

MR MARKS: And was it just the metropolitan markets? How many of those, if there were?

MR CADD: We did a study for over six months in the Rhine Ruhr conurbation. We covered 1,750 sites. We undertook that on a manual collection basis, and if it would be illuminating, I could perhaps show you something that indicates the market in Germany.

10

MR MARKS: And what does that tell us?

15

MR CADD: That shows us that the Edgeworth Cycle sawtooth graph of rising and then falling regular on a weekly basis is occurring across the Rhine Ruhr, and you can see that the fluctuations are regular and roughly weekly as well.

MR MARKS: When you say "roughly weekly", I'm not sure what the X axis is depicting there. It looks like times.

20

MR CADD: Well, what you actually have here is the 15th of the month in the morning and the 16th of the month in the morning.

25

MR MARKS: Oh, yes, I see. Thank you. The other market that you talked about a moment ago, and also got a mention in the October letter, was the Oslo market in Norway.

MR CADD: Correct.

30

MR MARKS: And I think in your October letter you have provided the reader with a - and you probably have a copy with you, I anticipate, although I don't know - with the unleaded petrol comparisons between Sydney and Oslo to depict the activity which - are there any comments you want to make about that, apart from the fact that the cycle obviously occurs?

35

MR CADD: Well, down the bottom of the graph I have coloured over the legend. I will show you that on the next slide. I won't ask you to do the party trick of guessing which one is Australia.

40

MR MARKS: If you do do that, just keep steadily in mind that I have a picture with everything on it here; I may have to cheat.

MR CADD: But if we look at that, what you can see is the Australian Edgeworth Cycle here, the Norwegian Edgeworth Cycle below it. I guess, from our point of view, there are certain things we need to understand.

45

MR MARKS: Sure.

MR CADD: In the Australian market, we have six major oil companies taking our data. In the Norway environment, we have one major oil company taking our data
5 strictly for audit purposes. They are not using it for tactical pricing purposes. So what you can see is that our data is not causing the Edgeworth Cycle. It's just a fact of the market that we have a homogeneous product, and that is what is driving this rise and fall effect.

10 MR MARKS: I just want to ask you a little bit more about that, then. So, just taking Norway.

MR CADD: Yes.

15 MR MARKS: Forget Australia for the moment. What do you say, in your view, is causing the cyclical activity?

MR CADD: I would strongly recommend that any student of these cycles go onto
20 the website and Google "Edgeworth Cycle" and you will see that this phenomenon of rise and fall occurs not only in Australia, it occurs in Canada, the US; as we saw before, it happens in Germany, it happens in Norway.

MR MARKS: Accepting that that is so, what I'm asking you, really, is a little more
25 specific: Looking at the Oslo market, which I think was the lower graph is depicting - - -

MR CADD: Correct.

MR MARKS: - - - what do you say, from your knowledge, is causing that price
30 cycle that's depicted there? Forget Australia altogether for the moment. I just want to focus on your feeling about what is causing the Oslo cycle.

MR CADD: It's a complex soup of issues. It is the cost - - -

35 MR MARKS: There is one - I am so sorry. Go ahead.

MR CADD: It is the cost of the petrol versus transport services in the country. It's
40 the complex way in which we use cars here. I mean, you have a homogeneous product and the ultimately transportable purchasing item. The person is in the car. They know that there is a site down the road; they drive past it each day. It is - price is used by companies to try and lure you into the site. So it is a standard Edgeworth Cycle that occurs - - -

MR MARKS: So who is driving the price up, do you think, in that cycle, just the
45 Oslo cycle? Who - from your experience in that market, who are the drivers up in the Oslo?

MR CADD: We have to understand that in the Oslo market there are very few independents. You have major oil companies operating in the market.

5 MR MARKS: Can you just give us a picture there? How many majors do they have in Oslo?

MR CADD: You have, of course, StatOil, which is the largest Norwegian oil company. You have Shell, you have Esso, which is Exxon Mobil, and you have Connoco Phillips, operating as Jet, and you also have a company called EX, or YX, who is a smaller convenience store brand.

10

MR MARKS: Right. YX, would you classify them as - they are not a refinery, are they? They are just a - - -

15 MR CADD: No.

MR MARKS: No? So you have really the four majors there, and then you have got YX, which is an independent?

20 MR CADD: Correct.

MR MARKS: Is that the only independent in the Oslo market?

MR CADD: That's exactly right. And what you have in addition to this is the major brands, in addition to having full service sites, they also have completely 100 per cent automated sites where they are able to compete in the marketplace and drop the price on those fully automated sites.

25

MR MARKS: Yes, I see. How does that happen in practice? Are they able to do it all instantaneously or - - -

30

MR CADD: They have various techniques of modifying their price boards. They can do it electronically from a central location.

35 MR MARKS: And the whole site is just automatic?

MR CADD: Completely.

MR MARKS: Yes, I understand.

40

MR CADD: There is no human being on site and you just drive in, card swipe, fill up, and off you go.

MR MARKS: Most of the automated sites that I have seen overseas have a choice --they are not fully automated, but you can utilise that, but these sites are fully automated?

45

MR CADD: Correct.

MR MARKS: Just going back to my question - that's helpful, thank you - the drivers then of the upward movement in the cycle, are you able to give us any feeling in the Oslo context?

5 MR CADD: It could be any one of those four.

MR MARKS: Any one of those four for a number of reasons.

10 MR CADD: That's right. The interesting thing that you may also care to note is that price movements tend to be weekly again, like they are in Australia.

MR MARKS: Yes, I understand.

15 MR CADD: They tend to occur on a Monday in Oslo. We, at the moment, in Australia tend to be having price rises I think on a Wednesday or a Thursday, but you don't have to go back very far from when it used to be perhaps Monday or Tuesday in Brisbane.

20 MR MARKS: Yes, thank you. All right. Now, just before I move from Oslo, is there anything else that you want to point out to the Commission about the Oslo picture that might be useful for the Commission to know about in the context of this inquiry?

25 MR CADD: I will just check my notes.

MR MARKS: Yes.

30 MR CADD: I guess the only other point that I would make is that, traditionally, in Australia for a long period of time, the price rises in Australia have been about 10 per cent of the value, you know, plus or minus 2 per cent - somewhere in the 8 to 12 per cent has been the standard price rise in Australia, whereas in Norway it's about 5 to 7 per cent. I believe that the difference between the sort of 10 per cent in Australia and the 6 per cent in Norway is structural to the industry.

35 MR MARKS: What do you mean by that?

40 MR CADD: Oh, it's - it will be a complicated soup, as I said before. Norway is one of the most abundant oil nations of the world. It has a much smaller population than Australia. It has very few independents, compared with the Australian market. There is, of course, also quite close to the huge refining markets of Rotterdam in Europe - so it is a complex soup which they - the diet of petrol prices is formulated on.

45 MR MARKS: Is there anything further Norway-related that might be - - -

MR CADD: I think that's all.

MR MARKS: Now, is there any other market in your overseas activities that you think the Commission should know about and at least broadly understand in the context of this inquiry?

5 MR CADD: Well, certainly - although we have not collected data in these markets, we are certainly aware that the sawtooth pattern that I showed before occurs in the US. We have also been asked to tender on business in Canada. We know that there is undertaking in Canada in similar fashion to this. In fact, in one city in Canada, the discount and restoration pattern is not weekly but daily, so the competitive forces
10 that are being undertaken in that industry - - -

MR MARKS: What city is that?

15 MR CADD: Toronto. So this is live on stage in many markets around the world.

MR MARKS: All right, that's helpful. Thank you. Can I come then to the Australian market and ask you about the cycling here, just understand what you say causes it. The cycle here, and tell me if anything I'm suggesting is, to your view, wrong, but from the information you have, you can help us, it does appear that the
20 cycle may not be being driven now, in 2007, in the same way that it was being driven some years ago when the independents were in a different position in the market. Are you able to make any broad comment about that?

25 MR CADD: I don't believe that we could add useful comment to that area.

MR MARKS: You don't?

30 MR CADD: We watch data. I can show you that the amplitude of the swings is roughly the same today as it was in 1993. But as to what is driving it, whether it's shopper dockets or supermarket chains versus independent numbers, I'm sorry, that's for people other than us to comment on.

35 MR MARKS: No doubt, in the ordinary course, it would be, this is not the ordinary course, and you conduct an operation which depends for its life essentially on the existence and occurrence of the cycle. I have no doubt whatsoever that in that context you have views - indeed, you would be unwise if you did not have views - about what drives the cycle in our Australian markets. Very important for the Commission that we understand, with your expertise, what those views are.

40 Now, my questions to you will be direct, but I do want a response to them - you have given us your oath - - -

MR CADD: Okay.

45 MR MARKS: - - - and I intend to explore it. First of all, what I want to ask you is - and I want to just take a market, you can tell me if it's not typical, but if you were to take one of the major metropolitan markets, take Melbourne because we're here - - -

MR CADD: Sure.

MR MARKS: - - - what, in your view, or who - I will start with what: What, in your view, is the driver of the price cycle now in Melbourne in October 2007?

5

MR CADD: It's the use of price as an easy and ready tool or weapon to try and attract custom into a site.

MR MARKS: Sure. And no doubt it's - you are going to say that the movement of the price, the reactions of various players in the market that is a feature of the cycle and, of course, it is. Let me then focus on the nature of the cycle and then come back to you about my question. We know the cycle is a weekly cycle - no one argues about that here in Melbourne at the moment. It is broadly occurring, as you know, and you have heard or read the Commissions transcripts of this inquiry - it is happening through the week; the cycle day is a Wednesday, as you know, and the movement up occurs, at the moment, on that day, or around that day. Who are the main players driving the movement up at the moment in Melbourne?

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15

MR CADD: I would suspect that it would be the majors.

20

MR MARKS: Okay. Your suspicion is well-founded, let me tell you, from looking at your own data.

MR CADD: Can I make a point and that is this: We provide data. We - - -

25

MR MARKS: You have made that point. You have made it clearly in your October letter. You made it again in your opening remarks today. We accept that.

MR CADD: Right.

30

MR MARKS: We're not talking about your business activities here, Mr Cadd, we are talking about matters which are very important to Australians and about which a public inquiry has been convened, and we want answers.

35

MR CADD: Good.

MR MARKS: What I want to ask you is what, in your view, is driving the cycle? I became more specific when you gave me a very broad answer. My question to you nevertheless remains. Starting with the upward movement in the cycle, we know in Melbourne at the moment, because we have the benefit of the information you have kindly provided to us, what is happening in the Melbourne market. What I want to ask you is who is driving the cycle at the present time in Melbourne?

40

MR CADD: Well, it is typically the - one of the majors would say lead up.

45

MR MARKS: Now, there will be no argument from us with that, from what we have read, and you don't have to talk about individual players here. I'm really more interested in the features of the market. It does look to us as if normally it would be

a major player, that is, one of the oil majors, who is driving the price up; can you confirm that?

5 MR CADD: I can and, frankly, it would be nonsensical for a smaller player with a smaller number of sites to attempt to move the market up because in sheer numbers, unless a large number of sites move up, the market would probably ignore it.

10 MR MARKS: Yes. It also does appear, from the information that we have had, that the driver in the market - now, I have chosen Melbourne, but it's only for discussion purposes - the driver tends to be not just a major but a major who has a significant presence in the Melbourne market, and by that I mean often a refinery in Melbourne and a significant number of retail sites as a proportion of the overall number of sites in the metropolitan area.

15 MR CADD: Correct.

MR MARKS: Is that a feature of the cycle that you would be able to confirm?

20 MR CADD: I think you are right, yes.

MR MARKS: So if I was to go across the board, without wanting to condescend to just one particular location, in the Melbourne market, at the moment what we see from the information we have at our disposal is that Mobil tends to be the upward mover on the most frequent number of occasions; judging on the information that we have at our disposal, it would appear that Mobil was the first to move prices up in the 25 13-month period that you have kindly provided this data for on around 75 per cent of occasions. Does that accord with your - - -

30 MR CADD: That would be correct.

MR MARKS: All right. It looks, from our information, as if Mobil has a large or a reasonably significant retail presence in Melbourne.

35 MR CADD: Correct.

MR MARKS: I don't want to overstate my knowledge here, and I would be grateful for your help. The information that I personally have relied on, and the Commission may have, as Mr Price pointed out, some more comprehensive information, but the oil extraction information which you kindly provided us sets out information for each 40 of the cities. In the Melbourne context, just looking at this information for the 13-month period, it looks like there is - Melbourne has around 700-odd sites. It looks as if Mobil has a pretty significant presence. It has nearly 100 sites in Melbourne.

45 MR CADD: Correct.

MR MARKS: Does that sound about right?

MR CADD: It sounds about right, yes.

MR MARKS: Can I just move on? I'm grateful for your help on this.

5 MR CADD: Yes.

MR MARKS: In the Brisbane market, the two refiners are BP and Caltex. The Brisbane site market - I mean, it's hard to tell from this but it looks like it has around 550-odd sites; does that sound correct?

10

MR CADD: That would be about right, yes.

MR MARKS: And both BP and Caltex have a significant site presence - BP around perhaps up to 150 of the 550 sites; does that sound in the ballpark?

15

MR CADD: Correct, yes. Yes.

MR MARKS: And Caltex certainly around about 100, and I'm not taking into account the Caltex/Woolworths alliance sites.

20

MR CADD: Your numbers sound right.

MR MARKS: Does that sound about right?

25 MR CADD: Yes.

MR MARKS: And if you take the Woolworths alliance sites, there are about 77 of those.

30 MR CADD: Correct.

MR MARKS: It looks to us - and I want your comment - it looks like Caltex is the key driver of upward movements in the cycle in Brisbane; is that correct?

35 MR CADD: I believe your suggestion is correct, yes.

MR MARKS: Okay. I just wanted to pass on to the west. You have information about the west, I know, although you do not collect it directly. It seems to us again that this same feature is obvious.

40

MR CADD: Mhmm.

MR MARKS: Perth has a refinery?

45 MR CADD: Correct.

MR MARKS: That refinery is owned by BP, would you agree?

MR CADD: Correct.

MR MARKS: BP appears to us to have a significant site presence and, indeed, BP has admitted to us it has a significant site presence in Perth?

5

MR CADD: I think it has the largest presence.

MR MARKS: I think it has. I can't be certain but I'm glad of your confirmation. It is apparent, from what we have seen, that BP are the active mover up in the Perth cycle.

10

MR CADD: Correct.

MR MARKS: So this feature that I'm describing looks like it's a fairly reliable indicator of the upward movers in the cycle. Is there anything you want to say about that?

15

MR CADD: I can't fault your logic. Definitely.

MR MARKS: I had a look at the Sydney market. There was not so obvious to me, and I wanted your help on that. There are two refiners in Sydney, Caltex and Shell.

20

MR CADD: Correct.

MR MARKS: In terms of site presence, BP and Caltex have, it looks like, out of around 720-odd sites - though there may be a few more - it looked like they had a significant presence, BP of around 133, Caltex perhaps up to 135. Do those numbers sound - - -

25

MR CADD: Sounds reasonable.

30

MR MARKS: Mobil a lesser presence but still a significant presence in the Sydney market, with around about 95 sites; does that sound accurate?

MR CADD: Correct.

35

MR MARKS: When I looked at the data for Sydney, it revealed that the mover up in the Sydney market in the time frame that we have - which I think I have mentioned to you, but if I have not, for the transcript it is 1 July 2006 to 25 August 2007 - tended to be Mobil. Does that accord with your knowledge of the Sydney market?

40

MR CADD: I - if that's what you've got from our figures, I would suggest they are right. That's not an analysis that we've done but I defer to your analysis.

MR MARKS: Okay. I was wondering whether you had any view about the Sydney market and whether you were able to explain the feature that I've just described?

45

MR CADD: We don't - we don't have a view on why a particular brand will choose to move up.

5 MR MARKS: My question was really a different one. If you accept that, overall,
Mr Cadd, the movements up are driven in the cycles that are occurring in Australia at
the moment in metropolitan markets, or tend to be driven by the party or parties with
a major presence, which I have defined to you as generally including both a refinery
from which they can obviously easily obtain petrol, and a significant site presence -
10 and that you have acceded to - then I wonder what you are able to say, if anything,
about the price cycle analysis in the Sydney market.

MR CADD: My suggestion would be - and it's only a suggestion - is that you - in
order to influence a market upwards, you have to have a largish, if there is such a
15 word, number of sites.

MR MARKS: Sure.

MR CADD: It is not necessary that you have a refinery in that city. In fact, under
the - I presume it still operates but under the refinery borrow and loan arrangements
20 within the Australian oil industry, I would suggest that that's not a significant issue.
What would drive a company to move its prices up would be that it has reached the
point where it is not making a profit and it says, "Enough, let's try and restore our
profit margins."

25 MR MARKS: But the reality of having a refinery doesn't need to be explored too
deeply to be understood. Obviously, the refiner has immediate access to fuel and
it complements its significant site presence, would you agree? I mean, it goes almost
as night follows day.

30 MR CADD: Well, if you are talking about lay down costs, obviously if you have a
refinery nearby then it's going to be cheaper for you - - -

MR MARKS: It's going to be significantly cheaper, and all of the refiners, I think
almost without question, have agreed in public hearings that the direction they are
35 going in is to improve their site presence and their operations and so on in the areas
where they have what I put to them as a refinery footprint or a refinery presence.
That was almost beyond argument.

MR CADD: It would sound like good business economics to me.
40

MR MARKS: Yes, which makes me suggest to you that the location of the refinery
is a significant factor when you are talking about activity in the market, and the retail
market in particular.

45 MR CADD: Well, the closeness of the refinery to the sites would surely reduce the
cost of operating and, therefore, allow the company to make prices cheaper.

MR MARKS: Yes. Not only - - -

MR CADD: But in the Sydney situation, I think you are trying to draw the conclusion - - -

5 MR MARKS: Well, I'm not. I'm asking it. There is no conclusion intended. My question in relation to Sydney is simply that it does not appear to follow the pattern that I described as occurring in the other retail markets, and I wondered if you - - -

10 MR CADD: Which is why I suggest that the issue of having a refinery in the market is not a key requirement or key determinant over who is going to lead up the price.

MR MARKS: What I'm suggesting to you is it may not be is a sole determinant. That's where we may differ somewhat.

15 MR CADD: I would suggest that the company who is leading up the price is the company who is hurting the most.

20 MR MARKS: All right. Let me ask you about the downward movements in the cycle, because I want to get your input on that. Obviously, there are - after the price goes up each week, it is slowly coming back down.

MR CADD: Correct.

25 MR MARKS: The drivers of the downward direction traditionally have appeared to be the independents. That's not so clear now. Can you comment on that?

30 MR CADD: I would suggest that the supermarket companies are active in the downward progress, but I would suggest that all of the companies at various times are actively seeking to preserve their market share, stay loyal with their customers, and that will, at times, dictate that they will pursue a lower price in the marketplace.

MR MARKS: Just to answer my question, do you think the independents are playing a significant role in the downward movement or is it just the supermarkets?

35 MR CADD: I think the independents and the supermarkets, and I would add that the supermarkets are doing it differently from each other.

MR MARKS: In what way?

40 MR CADD: And perhaps if we look back at the positioning of Coles Express in the marketplace two or three years ago, it was considerably more aggressive and I would suggest that although still a cheap place to buy your petrol, is perhaps not as aggressive in the marketplace as perhaps Woolworths or, indeed, some of the other independents right at moment - and I think you can look at the challenges that the Coles Group generally are having. But, as I say, this is a very complex soup that we
45 have to digest.

MR MARKS: Who is the major independent in the metropolitan market in Melbourne? Do you know that off the top of your head?

MR CADD: I- and how would you define "major independent"? I mean, do you mean by major influence, by number of sites?

MR MARKS: Firstly, by the number of sites?

5

MR CADD: We don't - I mean, I can go away and look at our databases, but I don't have that.

MR MARKS: You don't know that?

10

MR CADD: I mean, our - our business is about getting data.

MR MARKS: You have made that point, Mr Cadd, and I understand. But you can't answer that question.

15

MR CADD: No, I can't.

MR MARKS: All right. Can I ask you whether you have a view about whether the alliances between Caltex and Shell, respectively, with Woolworths and Coles have changed the nature of the retail market in the metropolitan areas that you monitor and, if so, how?

20

MR CADD: I can certainly say that it has, but how, I think I'd have to take it on notice.

25

MR MARKS: When you say it has - and it may be that you want to think about it further, but when you say it has, obviously you have that feeling. I'm just wondering what is the manifestation?

30

MR CADD: Certainly if you track back five years ago, the percentage of market share that Shell had, compared to today with the Shell Coles Express alliance, is vastly different. If you track back to - - -

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MR MARKS: When you say "vastly different", do you mean if you simply added it with the alliance partner, Coles, took them together and compared it five years ago to today, it is vastly different?

MR CADD: I am not privy to the market share statistics but I am sure the government can get those.

40

MR MARKS: That's just your view.

MR CADD: But certainly - well, it's a simple fact. Coles did not exist. Go back five, six, seven years ago, whatever the date was, and Shell was not doing so well, in market share terms, and the combination with the Coles Express has certainly increased its market share. Woolworths has become a force in the marketplace, compared with five years, six years ago where it didn't exist, and by necessity, there is only 100 per cent of market share that can be split up between the number of

45

players. You have to have - we have to be seeing some reduction in market share from others of the major oil companies.

5 MR MARKS: Yes. I was really just wanting to ask you, but not necessarily lead you, to anything you wanted to say about shopper docket and the impact that they have had. It's an important question that the Commission is grappling with. Perhaps I can ask it of you this way: Has Informed Sources conducted any analysis in relation to the use of shopper docket?

10 MR CADD: It perplexes us as well, Mr Marks.

15 MR PRICE: We have run some polls on Motormouth, which are publicly available, in terms of how often people use shopper docket. But I guess my concern with the Motormouth polls is that typically people using Motormouth are price conscious players in the market. And we typically divide the market up very broadly into four quarters. And I guess we say that 25 per cent of the market are those people with petrol cards, who are not really interested in the price. There's 25 per cent of people who are vitally interested in petrol prices and use Motormouth and the auto club websites. There is I guess another 25 per cent who don't care about the price for
20 anything, they just pay. And then there are the remaining 25 per cent, who float into the vitally interested component when prices are high, and when prices drop back they lose interest in it and they lose interest in the Motormouth website. So I guess we've got a belief that, yes, we conduct these polls on Motormouth as to what is the use of shopper docket, but they are skewed towards people who have a vital interest
25 in petrol and petrol prices.

30 MR CADD: We know anecdotally that petrol docket have been outrageously successful in some parts of the marketplace. But our information would indicate that it is only part of the marketplace. I can assure the Commission that I have never used a shopper docket. I fall into a category of purchaser, as I'm sure other people in this room fall into that category, which 'you buy'. So it is not 100 per cent of the buying communities concerned. It is only, as Mr Price would indicate, something we would estimate of the order of 25 per cent of the population who would it. That does not mean that you would not get 60 per cent, 70 per cent of the people griping about
35 it. It is very simple topic of conversation around the water cooler to have a bitch and a moan about the price of petrol. But our indications are that that is not reflected in the attitudes and the actions, the actions of the buying public.

40 MR MARKS: I - there are two matters arising from that. One is just to go back to my original question just to make sure I have not missed anything. Are you saying that you have not been asked, requested, retained by anybody to do any analysis based on the data you collect into shopper docket schemes or their impact on petrol prices? Is that correct?

45 MR CADD: That is absolutely correct. We have done no analysis whatsoever.

MR MARKS: Have you done any analysis more broadly to understand the impact, if any, that supermarkets generally have had on prices or on the petrol retail market?

MR CADD: We have done no analysis whatsoever.

MR MARKS: Okay. The other thing then I want - the second area I wanted to explore following what you said was this. I think you said a few moments ago that -
5 forgive me if I misunderstood this - the amplitude of cycles in metropolitan areas has not changed much over time?

MR CADD: Correct.

10 MR MARKS: Was I right about that?

MR CADD: Absolutely.

15 So far so good. Now, I wondered if that holds good in the period from which the supermarket influence became the most obvious. Now, let me just expand on that a little. Woolworths entered the market in around 1996. And they had a scheme of some form existing from fairly soon after they entered the market. Coles, I think, came onboard - Woolworths - I should just finish Woolworths. Woolworths aligned themselves with Caltex in 2003, right? And that alliance really became operative
20 from January, February or March 2004, would you agree?

MR CADD: Correct.

25 MR MARKS: That's the sort of time frame I'm thinking here. So far as Coles is concerned, Coles came into existence or onboard insofar as the petrol around about that time, or a little bit earlier. But I'm wondering from 2003, 2004 onward whether you saw changes in the amplitude of the cycle?

30 MR CADD: If I could show a graph?

MR MARKS: Yes, I just want to go back to your point that they have never changed since 1987, which surprised me.

35 MR CADD: Well, not 1987, 1993.

40 MR MARKS: Okay, let's talk about that. We have taken this - this is a photocopy of a report that we used to produce back in those days. And you can see we used to split up Sydney into the various geographic locations. What I have chosen here - firstly, you can see these are the days of the month going across here. And, again, although it's perhaps not as well defined, you can certainly see the weekly cycle coming through. What I have taken here is the low point of the south-west, and that's typified by the Campbelltown, Campbelfield sort of area of Sydney, a very price competitive area. And you can see here that it is lower than perhaps the more
45 affluent north-east part of Sydney.

So if we track from this point here down, there is a difference of approximately 7c over a midpoint of 65c, which is approximately 10 per cent, 11 per cent movement in the cycle. So that's 1993.

I would like to show you now a graph which extends from 2004 through to 2007. I'll just talk you through this graph. What we have done in our analysis is we have looked on a weekly basis at the minimum price for the week and the maximum price for the week and then we have deduced from that the percentage increase in price for that particular week. What you can see with this line of best fit is that, lo and behold, on this axis here it's somewhere around about the 9 per cent through to the 9.5 per cent. And if we compare that back to our Sydney of 1993, we had about a 10 per cent.

10 So to us over a long period of time - this is - obviously, if we go back to 1993, you can see that we're talking about prices we would all love to be enjoying, 65c. Right? But in percentage terms the amplitude has not changed over that period of time, which would suggest to me that there is again an infrastructural issue which says that the market can over a long period of time tolerate some form of approximately 10
15 per cent swing in prices. As opposed to my statement earlier on, where we said that the Norway market would - is demonstrating 6 per cent, that's correct.

MR PRICE: Can I make the point on those minimum/max - they are based on taking every site in the market we have prices for, taking the minimum for the week and the maximum for the week and combining them. So it's not based on averages.

MR MARKS: No, I see, I see.

MR PRICE: You mentioned Woolworths 1996 before. I'm not sure whether that is right or not. But - I just ask that you check it, that's all, because we don't know.

MR MARKS: You don't know. That's fine. Thank you, we will check that. Do you have that - can you make that information available to us in hard copy?

MR CADD: Absolutely. Everything that I have shown today we will make sure we forward through to you.

MR MARKS: Thank you very much.

MR PRICE: And we can provide that for each of the capitals.

MR MARKS: That would be very helpful. I imagine, although we have not talked about the other capitals in this detail, the picture that you are describing, namely, the 8 per cent to 12 per cent variation is broadly similar? Is that an incorrect assumption?

MR CADD: Perhaps - no, it is correct with most of the markets that we talk about. Except of course for Perth, where we have an interesting phenomenon in Perth.

MR MARKS: Yes, tell us about that.

MR CADD: Well, if you look, we have clearly got a two-weekly cycle occurring in Perth as opposed to a weekly cycle occurring in the other major - my view is that

there is a degree of risk and uncertainty implicit in the way in which the Western Australian government has affected the operation of the natural Perth market which has turned this into two things, one, it is now a two-weekly cycle and, two, the rise and fall appears to be a little bit less than the other markets. We could do some
5 analysis for you on that. One of the things that - I don't know whether it's within the issues being considered in this forum, but that has a detrimental effect, our belief is, on the price conscious buyer in Perth.

MR MARKS: Right. By that do you mean, as would be depicted or I suggest might
10 be depicted by the greeny/blue Perth line that at the low end of the cycle prices are not tending to drop to the same cent per litre levels as you are seeing depicted in the other average daily prices?

MR CADD: There is that. But there is also the phenomenon which is this whole
15 issue of weekly cycles. Weekly cycles, we believe, occur for simple mathematical reasons as much as anything else. Perhaps if I could just show this - this slide here.

The average car in Australia does 13,900 kilometres, so the ABS tells us. But that is
20 heavily influenced by the second family car, which perhaps doesn't do as much heavy lifting as the primary car. So if we look at a real working average, we have something around about 20,000 kilometres per year for the average car. Over a 50-week year that equates to 400 kilometres per week. Again, if we look at average consumption per vehicle, and remember that the very enticing petrol consumption figures that are quoted for cars are under test track conditions and - -

25 MR MARKS: Down wind with a wet sail?

MR CADD: That's it, that's the spirit. If we keep the numbers simple at around 10
30 litres per 100 kilometres, which would again be the family car, I think, no surprises, the mathematics works out at around about 40 litres for week or around a \$50 spend. You can check that with the oil companies as to whether that is a reasonable estimate of what an average spend is, and I am sure it varies from company to company. But the decision is that you are buying roughly on weekly basis. You probably don't fill right up. But there you have it, most people who are conscious buyers would be
35 timing their buying to coincide so that they get their \$50 and they get maximum value for it.

I suggest if we go back to the West Australian situation and people again probably
40 would not be able to extend their purchase period of time out to the second weekly low point, the second fortnightly low point. By definition they will be trying to buy at this point in the cycle here rather than, for the record, that's halfway down the cycle, as opposed to their desirable purchasing price here. The mathematics, again, looks something like this. The Perth cycle is 14 days compared to 7 days in the east. Purchasers who wish to buy on a weekly by basis, as most do, can only buy in the
45 second week of the cycle. This means that every other purchase is around 3.5c to 4c more expensive than if they had weekly cycles. On average, price conscious purchasers are losing approximately half of that, if you spread it over a two-week

purchasing cycle. So on average the fortnightly cycle here is costing the purchaser - price conscious purchaser in Western Australia - 1c to 2c a litre, in our opinion.

5 MR MARKS: I understand how you put it. Do you have any view about why the cycle in Perth is fortnightly?

10 MR CADD: My view would be that the inability of a site or a brand to move its sites in response to market pressures until the next 24-hour period has lapsed has in effect built in a stickiness to the pricing attitudes in Perth, which means that I daren't get it wrong so I will tread softly on a day-by-day basis rather than perhaps in the eastern states, where they are quite happy to try and go high, go low as their marketing indicates. If they get it wrong, they can move very quickly to a new point of competition. Can't do that in Perth. So this has introduced a stickiness into the pricing cycle, which has shown up as a two-weekly cycle.

15 MR MARKS: Do you know whether the Western Australian market enjoyed a two-week or one-week cycle prior to the Fuelwatch introduction?

20 MR CADD: I would have to go back and check over a long period of time.

MR MARKS: In other words, what I'm asking you is, and if you could check it against your records which I know Informed Sources would have, we would be grateful, whether the cycle has changed at all as a consequence of the movement to the Fuelwatch - - -

25 MR CADD: I would like to check that to be categoric, because I know the implications of that statement would be quite significant. But certainly my belief sitting here is that that is in fact the case.

30 MR MARKS: But you don't know off the top of your head notwithstanding the fact that you are at the moment suggesting that it is this nuance about the Fuelwatch, the 24-hour rule, which is creating this? We would be grateful for that information.

35 MR CADD: It sounds like more homework.

MR MARKS: It would be helpful to us. Any information you could provide us which shows us the differences in the cycle in Perth post and pre the Fuelwatch would be useful for us. Is there anything else you wanted to say about Western Australia or the peculiarities of the Western Australian Fuelwatch system before we leave that?

40 MR CADD: No, I think that's more than enough.

45 MR MARKS: That's the key point. I mean, obviously, from Informed Sources' perspective the interference with the cycle or the cyclical activity that is happening in the market would be a minus and not a plus, wouldn't you agree?

MR CADD: Agree.

MR MARKS: And so it's in Informed Sources' own business interests to not frown upon but to point out the downsides, if you like, associated with the Western Australian Fuelwatch system; would you agree?

5 MR CADD: I would not agree. I say these comments as a died in the wool free marketer.

MR MARKS: That's a perfectly reasonable answer. Nevertheless it would be in your interests, would it not, to point out the weaknesses in the Western Australian system from Informed Sources' perspective?
10

MR CADD: If the Western Australian system went away, then, yes, we would be able to sell services in Western Australia.

15 MR MARKS: I accept what you are saying.

MR CADD: And I am sure there would be some in the west who would seize upon those comments.

20 MR MARKS: No, I just wanted you - it is in a sense stating the obvious, but I think it is fair to put it. Perhaps I can make it fairer by putting this to you: Is there anything about the Western Australian system that you think is a good feature and that you would advocate to the Commission as something that should be looked at closely?
25

MR CADD: I can see nothing of advantage to the petrol buying community in the Western Australian implementation.

30 MR MARKS: Perhaps I can ask you this: Have you undertaken analysis to look at what effect or impact it has had on the average price of petrol in Western Australia compared to, say, Melbourne and Sydney?

MR CADD: We did that at its introduction, and our figures ...

35 MR MARKS: Tell me from the start. I was going to ask you about now but if you want to tell us about the whole story I'm happy to hear it.

MR CADD: Again, it's a complex soup that we have to digest, because there are different qualitative fuel issues in Perth that influence the price.
40

MR MARKS: Well, let me ask you the questions this way: Have you done an analysis to compare the average or differences in the average price in Perth before and after the introduction of Fuelwatch?

45 MR CADD: Yes.

MR MARKS: Are you able to say from that whether there has been a lower, higher or same average price pre and post Fuelwatch?

MR CADD: Our indications at the time was that the introduction of the Fuelwatch process in Western Australia was costing the petrol buying public on average 1c to 1.5c per litre.

5 MR MARKS: By that you mean that the average price would increase by about 1c or 1.5c?

MR CADD: Correct.

10 MR MARKS: I think I interrupted you before. Were you about to say that had been borne out by - can I ask you, in any event, that was the modelling you did?

MR CADD: Yes.

15 MR MARKS: What I want to know is what is the fact?

MR CADD: No, it was not so much modelling, it was in fact comparison of average prices both before the introduction of the service and after.

20 MR MARKS: Oh, I'm so sorry. When did you conduct that?

MR CADD: At the time that the Fuelwatch service became operative in Western Australia we undertook that. We went back and looked at average quarterly prices. I may be lucky and can find it on my hard drive, but there is, certainly at the time we did the study of the prices there was a marked 1 to 1.5 per cent cost. Interestingly enough - - -

25

MR MARKS: Just let me clarify that if I could. When you say there was a difference, 1 to 1.5c in cost, this is after Fueltrack was introduced.

30

MR CADD: Not Fueltrack, that's those other people.

MR MARKS: Let me put them to one side.

35 MR CADD: Please do.

MR MARKS: After Fuelwatch was introduced, and you say there was a pre and post analysis?

40 MR CADD: Yes.

MR MARKS: Fuelwatch was introduced, what, about 2003?

MR CADD: I can't remember the dates but certainly about that time.

45

MR MARKS: I just want to understand the efficacy of this evaluation.

MR CADD: We took a pre Fuelwatch - we had the data available, we still have the data available and we can of course make that available to the Commission. We did an analysis of a graph because, having been born in Western Australia, I actually feel quite - - -

5

MR MARKS: Attached to it.

MR CADD: Attached to the place. And I felt, again from a free marketeer's point of view, what was going on was incorrect. Nonetheless, we did the analysis and it showed clearly a 1c to 1.5c rise or perhaps extra cost.

10

MR MARKS: But I really need to just see if I can get down to when this was.

MR CADD: It was at the introduction of the Fuelwatch.

15

MR MARKS: But you don't know when that was?

MR CADD: I don't carry around those facts in my head.

MR MARKS: Have you done anything recently, I'm talking about in the last year, two years, to look at the trend of the average price in the west, by that I mean Perth obviously, compared to the average price here?

20

MR PRICE: Can we make a distinction between analysis and data and reports that we produce every month.

25

MR MARKS: Sure, okay.

MR PRICE: Which are made available to the Commission.

30

MR MARKS: Let me ask you the question differently: What do they reveal, if you are able to tell me, in terms of the difference between the average price in Perth and the other major metropolitan capital cities?

MR PRICE: Let's be clear, we have done no analysis, but in terms of the data/reports I have got no view, because we don't look at them. Essentially we distribute reports to the Commission, to the oil companies, they compare averages - - -

35

MR MARKS: Mr Price, you are not suggesting to me, are you, that now as we are, armed with the knowledge that Informed Sources does not think that the Fuelwatch system is a good one, thinks it has an adverse impact, Informed Sources has not itself done some analysis to understand whether the very point it made some earlier point in time, namely there would be a cent or a cent and a half difference between price over time has not been borne out?

40

45

MR CADD: We have done that analysis at the introduction of Fuelwatch but we have not done it recently. I would suggest that it would be extremely difficult to do that.

MR MARKS: Why is that?

MR CADD: Because of, as again, the - how do you bring into account the cost of land in Perth versus the cost of land in - - -

5

MR MARKS: What about just the price?

MR CADD: But if the - - -

10 MR MARKS: No, no, there may be all sorts of reasons one could eventually attribute; I don't want to argue or agitate that with you now. What I want is know is what the difference in price is and what on an average basis over time since, and if you could provide us with that information we would be grateful.

15 MR CADD: We will do that for you post haste.

MR MARKS: I am grateful, thank you.

20 MR CADD: I will also try and find the analysis we did at the time of the introduction of Fuelwatch into the Western Australian arena and see if that could be useful as well.

25 MR MARKS: That may be useful, too, because it may be that in that analysis you have had something to say about these features of the market that you think are worth us knowing about. We would be grateful for that.

Mr Chairman, they are the matters I wanted to ask in open session. I have a few matters I want to raise in a confidential context.

30 THE CHAIRPERSON: I suggest we take a few minutes. I have a few questions I want to follow up on in open session and then we will perhaps take a break for lunch and then reconvene after lunch and go into closed session.

35 MR MARKS: I don't think I will be more than five minutes or so in closed session. I think it will be quite short.

MR CADD: In the interests of the comfort of the people attending, I wonder if we might have a short break.

40 THE CHAIRPERSON: Why don't you take a short break now. I was conscious that we have been going for some time. I have just got a few questions. Or perhaps it would be helpful if I were to ask my questions in open session now and then take a break. Or do you prefer?

45 MR CADD: As you please.

THE CHAIRPERSON: Then we can clear the room during the break and come back for the closed session.

The questions I had are these. Perhaps I can go back to the Perth cycle for the moment. I am also interested in just in the comparison of average prices now with what is perhaps happening on the eastern seaboard. A question asked by Mr Marks was this: In the event that Fuelwatch was removed in Perth you would be able to sell
5 your services then, wouldn't you, in the Perth market?

MR CADD: Correct.

10 THE CHAIRPERSON: What would happen if Fuelwatch was adopted throughout the whole of Australia?

MR CADD: Then our services would in all probability cease. If not cease, severely be curtailed. One point of clarification, our price watching services would cease or be severely curtailed. The other four Ps of the market mix, place, people, promotion,
15 et cetera, would all continue.

THE CHAIRPERSON: Okay. Mr Marks asked you some questions about the independents and their failure to take up your services to date. And he was attempting to establish some of the reasons for that. I want to put a question to you:
20 Has a response from any of the independents been along the lines of, "We're not interested in participating in your service because it would make our pricing available to our competitors, and we would prefer that not to occur"?

MR CADD: No. That has not been voiced in any of the contexts that I have tried to
25 market.

THE CHAIRPERSON: You mentioned that there is a restriction imposed under your contractual arrangements with the majors. I think the word used was the "majors", on the publication of data. Do you include Coles and Woolworths in that
30 context of the majors?

MR CADD: Correct.

THE CHAIRPERSON: So they also impose that restriction on publication of their
35 data?

MR CADD: Correct.

THE CHAIRPERSON: I then just wanted to reconcile a couple of numbers. You
40 indicated that Motormouth - Mr Price, you said that Motormouth covered 60 per cent to 65 per cent of the market. But that is - - -

MR CADD: Metropolitan market.

45 THE CHAIRPERSON: Metropolitan market, that is right. And that's solely the market that doesn't report you to electronically - let me rephrase that. Motormouth is solely focused on those sites that do not report to you electronically, because the electronic data is not included in Motormouth; is that correct?

MR PRICE: No, not exactly, the data on Motormouth is the data that we manually collect, which is a combination of independents' prices and majors' prices.

5 MR CADD: As we drive past a major to get to an independent, we will collect the major's price as well.

THE CHAIRPERSON: Even though you might have it already electronically?

10 MR CADD: Exactly.

THE CHAIRPERSON: And the majors can't or don't prevent you publishing that data that you pick up by the manual process?

15 MR CADD: Correct.

THE CHAIRPERSON: But you would suggest that Motormouth then, by that manual collection process, is picking up 60 per cent to 65 per cent of the total market that is available?

20 MR PRICE: Correct.

25 THE CHAIRPERSON: The independents - you have talked about the information was potentially - I beg your pardon, the participation by independents in the Informed Sources process was offered to them at a quote "nominal fee". Can you indicate what that nominal fee was?

30 MR CADD: The nominal fee is a reduced fee based on their needs. One of the keys for us providing our service to all participants who could want it is to not burden a small operator with the charges that perhaps a large operator might be happy to bear. For example, you might have a site - a person operating, say, five sites in a market. We would be able to and happy to have that company as a customer of ours and we would then provide that company with those five sites of his and immediately surrounding competitor information. And that would then allow them to get the data from us and they would get perhaps five times five, 25 or 30 sites in a market. That could be as low as 5 per cent of the total sites that we're collecting in a marketplace. So consequently we can then charge him only 5 per cent of what Mr BP or Mr Mobil or Mr Caltex is paying for the whole lot. Now, naturally, he has to pay a little bit more because he is buying less from us, but it is a nominal increase of a small differential to cover the cost of having us onboard.

40 MR PRICE: I guess the other point with that is that that operator has got to have the ability to not only transmit prices to us but has got to have the ability to take prices back. So, you know, they have got to have some sort of electronic system that they can send their prices to us, whether it is via the web or from their consoles, and not all of them have got that at all of their sites. And it could well be that an operator that has got five sites may have different pricing responsibilities across those sites. They might be dealer operated sites operating under a common brand, but the dealer

may actually control the sites at individual sites - sorry, control the prices at individual sites.

5 THE CHAIRPERSON: But just the final question is this: I think you indicated in passing that you were contemplating or you were near to starting up the operation in Hobart?

MR PRICE: Correct.

10 THE CHAIRPERSON: That's Tasmania or Hobart?

MR PRICE: I would prefer to handle that in a closed session.

15 THE CHAIRPERSON: Okay.

DR KING: Just a couple of quick ones. You mentioned the SMS services were not particularly popular.

20 MR CADD: Another one of my great marketing initiatives.

DR KING: You suggested price might be a factor. SMSs are - I have got teenage kids, they seem to SMS all the time. It seems to be three-quarters of their phone bill. Is there any other feedback you have got as to why it hasn't taken off?

25 MR PRICE: Typically people are happy to take information off the web for no charge. As soon as they have to pay something and sign up - we have a system of credits, you can buy credits which will give you access for the next month or next three months. I think that starts at a package of 4.95. But it doesn't see demand for it. In fact, we are probably close to killing the service. It is just not worth doing.

30 MR CADD: Most people who are happy to bitch and moan about petrol prices are the ones who haven't the discipline to organise their affairs to go and buy on the cheapest day of the week. There are plenty of services available, the RACV or various other motoring organisations, et cetera, and they can very easily spot which
35 is going to be the cheapest day this week. Guess what? It was the same as last week. If the share market went up and down as regularly we would still have people saying, "Damn it, I missed it." With those people, the concept of trying to sell to them an SMS service where they are premeditated about trying to save this, to work it out, it just doesn't fly. We believe there will be a convergence of technologies and need in
40 the near future whereby somebody driving home will say, "Hey, I need petrol" or I'm out of town, visiting grandma, I need petrol for the drive back home, and they will be able to see our database via a Telstra/Optus inspired web something, and they will then be able to make an intelligent decision to say, "I've got three sites coming up on the left-hand side of the road, I choose the brand X, because I like them anyway and
45 they are pretty reasonable." But it's not there yet.

DR KING: Just on feedback from Motormouth, I would have thought a service like Motormouth, one of the problems is that - and you mentioned this briefly - is that

customers look up the Motormouth website, it's updated in the morning. And I'm filling up around lunchtime, and the prices have changed and I can't rely on this website. Do you get that sort of feedback?

5 MR PRICE: Typically only on the day that the cycle rises. As I indicated, generally people - prices move, they will move down so there is not that angst. But certainly there is angst and we have a lot of disclaimers on the site to say that we only collect twice a day. I think the other important point is - which we try to get across in our marketing positioning is, as Alan said, time your purchases. That's the message that
10 we really give to motorists. Time your purchases to particular days of the week. And I say to people buy on a Tuesday morning if you want to be safe. If you want to sort of live on the edge buy on a Wednesday morning and you might get burnt.

MR CADD: But because, as Mr Price says, remember that the cheapest day is also
15 the most expensive day. And once it's gone you have missed it for another week. And people, if they buy on the day before, gee whiz, they might miss out on a 1c lower price if they had timed it for tomorrow. But if they buy it a day before they are certainly going to guarantee that they are not going to be 12c a litre worse off.

20 DR KING: With that problem or with that issue with Motormouth, do you have any view of how that affects the number of people who use the service?

MR PRICE: How many people use it?

25 DR KING: If you are to have realtime data - I understand the publication reasons we have gone through as to why you can't have realtime data on there, but do you think the website would be significantly more popular, than it is or twice as popular, would it be very marginal?

30 MR CADD: No.

MR PRICE: How long is a piece of string? I think it would certainly be more popular. How popular is the WA government's Fuelwatch website in terms of, you know, can you make a comparison off there? I don't know what their numbers are,
35 but ...

MR CADD: The advantage of the Western Australian government is that, if you go and look up the price in the morning, then you can see it in the afternoon. Great. But that doesn't work in the eastern states. We have spoken to people around the
40 world. And I'm sorry, but these type of websites just simply don't cut it. It's - the concept of a consumer buying a distress item like petrol on a weekly basis, going in and looking up and seeing where they really want to be buying something, it's not, it's not going to be a great seller.

45 DR KING: Finally, for clarification, I think you have already effectively answered this, but if I was to say you to, look, I'm convinced by this, I reckon this is a great service you are offering. I want the full subscription service. I'm just a member of

Joe public. I assume I cannot buy that service because I don't provide you with any data?

MR PRICE: That's correct.

5

DR KING: And we will get to this presumably in closed session, but that's due to the structure of the contracts you have with the parties that provide you data?

MR CADD: Correct.

10

DR KING: There is a quid pro quo: If I don't provide you with data, no matter who I am I can't get any data?

MR CADD: Let's be clear, one of the reasons why that is there is because the current subscribers would be careful to watch to make sure that an oil major who isn't currently present in this market could come along and buy pricing data and decide how they were going get into the market and why would they help a competitor with an easy break?

15

20 DR KING: Understood. I just wanted to make sure.

MR MARTIN: Just one question. You mentioned confirmation of your processes by the ACCC and the Commerce Commission, Bundes Cartel. Was that something that was driven by the clients wanting that or - - -

25

MR CADD: No, I like to sleep easily at night. The very first thing that we did when we got going in this business 20 years ago was we sought a QC's opinion to make sure that everything that we do and even down to the way in which we address our clients is absolutely scrupulous in legal terms. We will not send out a joint email to our subscribers where there is any way that anybody will know who the names are of the other parties in the service.

30

MR MARTIN: So you notified the ACCC or what was the process?

35 MR CADD: We have sought clarification from the Trade Practices Commission on our services as early, I think, as 1995.

MR PRICE: We hold a letter dated 1995 from the TPC.

40 MR CADD: I would be happy to show it to you after the break.

MR PRICE: And I guess the Commission contracts have been in place since that time, in terms of us supplying that to the Commission.

45 THE CHAIRPERSON: Let's take a quick break and then those that are relevant to return, which is the ACCC people and yourselves, will return and others are now excused as we go into closed hearing.

MR MARKS: Just before we finish, I wonder if I could seek your indulgence, I wanted to ask Mr Cadd just one general question, and it is really just to give you an opportunity in public session to say anything, Mr Cadd: is there anything about your operations or about price cycles, the causes of them or anything else that we have
5 asked you this morning that - or anything we haven't asked you that you wanted to raise, any points you think might be relevant to the Commission's work in this inquiry that you think the Commission should know?

MR CADD: Excuse me one moment. Did you want us - we actually did some
10 research of some people who were in the industry during the sixties and seventies and we have some detailed understandings about how the petrol discounting started in the country, if that's of interest to the Commission.

MR MARKS: That would most certainly of interest and we would be grateful to
15 have it.

MR CADD: Certainly. Would you like that perhaps in written form to the Commission?

MR MARKS: Is it in writing already? Have you prepared it in writing?
20

MR CADD: I have it in writing here.

MR MARKS: Is it something that you wanted to make particular mention of in
25 public session? Because we are quite happy to get that historical information - - -

MR CADD: I don't think it serves the public particularly to know the genesis. I think - - -

MR MARKS: With the Commission's leave, I will ask if you might provide us with
30 a written version of that and we would be grateful for it. Was there anything further?

MR CADD: No.

THE CHAIRPERSON: We will take a quick break and as soon as we come back we
35 will go into the closed session.

ADJOURNED

[1.00pm]

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