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# Economic assessment of PMG's Application for Authorisation

**RBB Economics, 17 June 2016**

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# 1. Introduction and Executive Summary

This paper has been prepared by RBB Economics at the request of Corrs Chambers Westgarth on behalf of REA Group Limited (**REA**) in response to an application by Property Media Group Pty Ltd (**PMG**) for authorisation for PMG and real estate agents to collectively bargain with, and boycott, online property advertising suppliers (including REA) (**Application**).[1]

## 1.1. Online property advertising suppliers

Online property advertising suppliers aim to provide value for two important groups operating in the broader real estate market in Australia – agents (on behalf of vendors), who are looking to sell property, and consumers, who are seeking to purchase property. Agents typically seek to maximise the exposure of a property to increase the prospects of a quick sale and to ensure that the highest possible price is obtained. Consumers look to obtain information about a large range of properties and try to secure a property at the lowest price. Consumers also want to ensure that they minimise the cost, time and inconvenience of searching for properties and seek reliable information about those properties.

## 1.2. Overview of competition concerns raised by PMG

Broadly, PMG argues that the market structure has a tendency towards being dominated[2] by one supplier, which it alleges has the following consequences:

- REA has substantial market power which enables it to set "substantial" prices (and impose price rises), which do not reflect the costs of providing its services; and
- unequal bargaining power between agents, on the one hand, and REA, on the other, distorts competition and leads to higher rates paid by vendors.

This paper responds to these two allegations.[3]

## 1.3. Structure of this report and main findings

We begin this report by providing a brief overview of REA and of the services provided by online property advertising suppliers in section 2.

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[1] We have been instructed by Corrs Chambers Westgarth to assume that the Application relates only to advertising services in respect of properties that are for sale. As such, we use "sell" as short for "sell (or lease)" and "buy" as short for "buy (or rent)".

[2] We treat "dominance" as being synonymous with "substantial market power" and refer to "substantial market power" in this report (unless directly quoting PMG's application).

[3] Our discussion focuses on whether REA has set "substantial" prices rather than whether it has reduced "choice and flexibility in advertising options for agents". However, the arguments relating to whether REA could set "substantial" prices also relate to whether it could reduce quality by lowering "choice and flexibility", and the arguments relating to higher prices should be read as shorthand for higher prices (with no change in quality), lower quality (with no change in price) or both an increase in prices and a reduction in quality.

In section 3 of the report, we then undertake an economic assessment of REA's pricing structure and find no evidence that REA's prices are "substantial" in the sense of being reflective of substantial market power or higher than is to be expected in a competitive market, even though they may be above the marginal cost of providing an additional property listing. We explain why efficient prices may well exceed costs and that such a departure does not suggest that prices are reflective of substantial market power or a lack of competition, and find the following:

- REA – like many digital platforms – is characterised by relatively high fixed costs and relatively low marginal costs. Under those conditions, firms must often charge substantially above marginal cost in order to cover their total costs.

- Prices may be higher than marginal or even average costs in order to reflect economic value. This economic value would include demand side aspects of the products or services provided to agents (and vendors). In this case, REA has a relatively large audience, which increases the value to agents (and vendors) from listing on REA. Prices, therefore, should reflect agents' and vendors' willingness to pay for advertising on REA's platform relative to other platforms (digital or print) rather than the marginal or average cost of a listing.

- As inventory is finite – there can only be a limited number of properties listed on the first page, or at the top, of search results of the platform at any time – higher prices will ensure that scarce available capacity is allocated to those agents (and their vendors) who place a relatively high value on their properties being displayed prominently, and who therefore have a higher willingness to pay. In the absence of higher prices, premium space on REA's platform (desktop website, mobile website and mobile application (**app**)) could be allocated arbitrarily and without reference to "willingness to pay", such that some agents/vendors who place a relatively high value on property being displayed prominently will simply miss out. This would be an inefficient outcome.

- Online property advertising is a "two-sided" market, in which platform operators provide services to both consumers and agents. While this does not fundamentally change the way the market operates, it does provide another reason why prices will not necessarily correspond to the costs of serving one distinct group of customers. In this market, competition between suppliers results in the prices faced by consumers searching for properties to be set at zero – clearly below cost. The costs of the platform must then be recovered from the agents or advertisers on the other side of the platform. In this environment, the price on each side of the market will not follow the simple (but naïve) "price equals cost" rule, but will instead be a complex function of the elasticities of demand on both sides of the market, the extent to which each side of the market features "indirect network effects",[4] as well as the marginal costs on both sides of the market.

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[4] Roughly, indirect network effects are benefits that users on each side of the market gain from having more users on their side of the market because it attracts more users from the other side of the market. In particular, having more buyers on a property platform benefits each individual buyer because it attracts more real estate agents on the other side of the market (who provide a greater number of properties over which buyers can search). Similarly, having more real estate agencies on a

In section 3, we also find that, although REA is a leading digital property platform in Australia, it faces strong competition from many rivals in the market including other online property platforms, for the following reasons.

- REA is compelled to ensure that it offers a high quality product to users. REA's substantial expenditure on investment and innovation is inconsistent with the behaviour of a firm with substantial market power.

- Domain is a key competitor of REA, and it imposes a strong competitive constraint on REA. From August 2015 to April 2016, around [redacted] Australian properties were listed on Domain, whilst [redacted] Australian properties were listed on REA. Accordingly, the percentage of Domain's listings to REA's is around [redacted] per cent.[5]

- Other advertising platforms (print and digital) attract significant traffic from both agents (ultimately vendors) and buyers at a national level. For example, RealestateView accounts for around [redacted] per cent of REA's listings in Western Australia, and [redacted] Domain's share of REA's listings in that state.[6] REA has modified its products and offers in response to the competition it faces. For example, it routinely tracks and responds to its competitors' pricing, modifies product offers in response to agents' needs, and develops features and technology to provide consumers with a better and more effective search experience.

- Barriers to entry and expansion are not high in the relevant market. While users will naturally tend to use their preferred platform more frequently (and in some cases exclusively), there is evidence of "multi-homing" (multi-homing occurs when users on either side of a two-sided market use more than one platform) by both consumers and agents. To the extent it occurs, multi-homing reduces the scope for indirect network effects to lead to barriers to entry as rival platforms can still expand their audience and thereby attract advertising revenue even though they may start with fewer potential buyers and agents using their platform.

In section 4, we then consider the arguments made by PMG to support its application for authorisation for collective bargaining and boycotts. PMG argues that collective bargaining is needed to provide a more balanced negotiation and more efficient and even bargaining and that the availability of a collective boycott is needed to produce outcomes which would more closely approximate those expected in efficient and competitive markets.

PMG's arguments for collective bargaining and boycotts appear to rely on the view that two parties (namely agents, on the one hand, and property platforms, on the other) need to be of similar size for an efficient or competitive outcome to be achieved. According to PMG, the substantial market power of REA along with Domain means that bargaining power in this market is uneven.

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property platform benefits each real estate agency because it attracts more potential buyers to visit the platform. See section 3.2 below.

[5] CoreLogic.

[6] CoreLogic.

However, there is persuasive empirical evidence that size alone does not confer bargaining power.[7] Instead, bargaining power is more likely to be related to the parties' "outside options". The relevant question for this assessment, therefore, is whether there is currently an *imbalance* in the outside options available to agents and REA which would be redressed by authorising the proposed conduct. We find that there is not.

PMG also argues that *"the downward pressure placed on the media buyers and media advertisers should result in a cost benefit passed to the Vendors"*.[8] However, even if the proposed conduct corrected any imbalance in outside options and thereby led to cost reductions to agents, there can be no assurance that any reduction in fees to agents will necessarily be passed through to vendors.

Finally, there is a real risk that the creation of a substantial buyer group could harm competition, for the following reasons.

- Both collective bargaining and collective boycotting in the current context could lead to inefficiency in price signals in an otherwise competitive market. Collective boycotts could directly damage the REA platform, preventing it from earning a return on its investment, and harm agents that are outside the buyer group (and which rely on the REA platform) as well as buyers that use the platform.

- Using PMG to negotiate on behalf of agents could "rigidify" the market for advertising spend by centralising negotiations with PMG, and deterring innovative pricing plans and packages demanded by agents based on their understanding of local markets from emerging. REA's move towards a price structure that links prices to "market zones" rather than individual suburbs and the introduction of a "Premiere All" contract are examples of REA responding to agent feedback and also provide illustrations of the types of value-based changes which may be overlooked by PMG in its desire to simply drive down prices.

- The bargaining group could deteriorate the terms of supply for rival agents (that is, those agents outside the bargaining group) by raising the input costs of other agents or by adopting strategies to reduce benefits available to rival agents.

# 2. REA's business model and pricing structure

In this section we provide a brief description of REA and of the services provided by online property advertising suppliers such as REA.

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[7] Ellison, S. F. and Snyder, C. M., 'Countervailing power in wholesale pharmaceuticals' (2010) *The Journal of Industrial Economics* Volume 58, Issue 1, pp. 32–53.

[8] Application, pp. 27.

## 2.1. Services offered by online property advertising suppliers

Online property advertising suppliers, such as REA, provide advertising solutions to the real estate market, including the ability to list properties on a digital platform. These advertising solutions offer value to two distinct (but closely related) groups in the economy – agents and prospective buyers. Agents seek an easy and effective way to advertise their property to prospective buyers, while buyers seek an efficient way to access a number of properties that meet their individual criteria.

Online property advertising suppliers' platforms allow both agents/vendors to list properties and property seekers to search for properties and information. For this reason, these sorts of platforms are commonly referred to as "two-sided" platforms or markets.

Online property advertising suppliers continually develop services for their platforms in order to deliver additional value to agents and prospective buyers. For example, both REA and Domain offer mobile applications, 3D property tours,[9] and information about the schools located close to a listed property.[10]

Agents also list properties online on their own websites, produce printed property advertising brochures, display property notices on the windows of their local offices, and erect signboards in front of properties.

Finally, properties are also listed in print publications such as local/community newspapers, metropolitan newspapers and local magazines.

The increased value that online property advertising suppliers have delivered to real estate agents and prospective buyers alike has led to a shift in the proportion of advertising spend on online advertising compared to offline (or print) advertising over time, as shown in Figure 1 below.

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[9] 'Real estate agents' 3D technology enables virtual open homes, available at http://www.domain.com.au/news/real-estate-agents-3d-technology-enables-virtual-open-homes-20141025-11brpu/.

[10] REA: http://www.realestate.com.au/blog/should-you-buy-property-near-a-school/; Domain: 'School Zone Feature – is the home you want to buy in the right school catchment area?', available at http://www.domain.com.au/group/press_release/domain-launches-school-zone-information-real-estate-listings/.

**Figure 1: Australian real estate advertising spend, 2009 to 2016F**

[redacted]

*Source: REA estimate.*

Figure 1 shows that total advertising spend has increased by only around [redacted] per cent from 2009 to 2016, while the mix between online and offline advertising has changed significantly.

## 2.2. Overview of REA and its pricing strategy

Amongst other platforms, REA operates the real estate advertising website realestate.com.au and its associated mobile website and app. REA is one of many property advertising suppliers in Australia. Domain is a key competitor and is similar to REA in terms of the services it provides to agents and to prospective buyers of properties. Platforms such as RealestateView, Realestateworld and Onthehouse also provide property advertising solutions to agents.

At its broadest, REA's pricing strategy is to charge agents to list their properties on REA's platform and not to charge prospective buyers to search for properties. That is, REA (as well as other online property advertising suppliers) only charges users on one side of the platform – agents. This strategy encourages prospective buyers to view the properties, which in turn provides value for the agents listing the properties.

REA offers a number of different listing options for agents. These include "Standard", "Feature", "Highlight" and "Premiere" listings. A Standard listing on REA's platform is a basic listing that displays a small photo of the property, a small agent logo and typically appears at the bottom of the search results. "Feature", "Highlight" and "Premiere" listings are enhanced listings (also known as "depth" listings) which, for an additional fee, include features that make the individual listing stand out to prospective buyers, such as larger photos and better positioning of the listing in the search results.

REA offers two types of subscriptions: Standard and Flexi. Under a Standard subscription, properties are listed as "Standard" listings and no additional per listing fee is charged. A Flexi subscription on the other hand, includes a "depth" contract which allows agents to pre-commit to upgrading all or a certain number of their listings at discounted rates.

REA determines prices for listings based on the listing type (such as Standard, Feature, Highlight or Premiere), the duration of the listing upgrade and property related factors such as the relative demand for a property in a particular area.

# 3. An economic assessment of REA's pricing

PMG asserts that REA has "market dominance" and has implemented *"substantial price increases"* and sets prices that are not *"reflective of the cost of the service"*.[11]

In effect, PMG alleges that REA has market power and is using this power to impose prices that are above competitive levels. One of the arguments that PMG puts forward to substantiate its allegation that prices are above the competitive level is that prices do not reflect costs.[12]

We examine PMG's allegations by answering the following questions:

1. Does economic theory require prices to reflect costs?
2. How does the fact that REA operates a two-sided platform affect REA's price setting?
3. Does REA face competition from rivals?

## 3.1. Does economic theory require prices to reflect costs?

PMG's argument that REA charges prices that are disproportionately higher than the marginal costs of the service that it provides seems to suggest that such an outcome is inconsistent with economic efficiency.

### 3.1.1. A brief overview of price setting in a perfectly competitive market

Economic theory suggests that efficiency is achieved when prices are set at the level of short run marginal costs. However, such an outcome is to be expected only in perfectly competitive markets. In hypothetical and perfectly competitive markets there are many buyers and sellers, the quantity of products or services bought by any buyer or sold by any seller is small, all firms

[11] Application, pp. 4.

[12] Application, pp. 4, 15-16 and 19.

are identical and products and services are homogenous, all buyers and sellers have perfect information, and entry and exit is free. In such a market, prices will be set at the level of short run marginal costs and economic efficiency will be maximised.

The reason for this is that if a seller's price exceeded short run marginal cost, then that seller could make more profit by producing more goods or services. Similarly, if marginal costs exceeded price, then output would be reduced as more profit could be earned by producing fewer goods or services.

Since the product or service in a perfectly competitive market is homogenous and no supplier can affect the market price, the market price is the same for all suppliers. Each supplier will produce their services up to the point where price equals the short run marginal cost. That marginal cost will be the same for all suppliers and will equal the price in that market.

### 3.1.2. Price setting in practice

In reality, very few markets are perfectly competitive and a number of the assumptions required for perfectly competitive markets will not hold. There are, however, a number of reasons why it would nevertheless be consistent with economic efficiency for prices to depart from costs and we consider three of these below.

First, competition does not require that all firms set prices equal to costs or that economic profits are driven down to zero for all firms in the industry. In competitive markets, the marginal firm in an industry should set its prices at the level that recovers all of its economic costs. More efficient firms will, by definition, earn positive economic profits. This means that prices will more than cover the average total costs for the "infra-marginal" – that is, the more efficient – firms in the industry.[13]

We have not undertaken an efficiency assessment of REA, but in line with economic theory we expect that the more efficient any firm is in supplying online property advertising services, the greater the margin it will earn. That is, economic theory suggests that relatively efficient suppliers of online services will be able to set prices above their average costs.

Second, prices will depart from costs if a firm supplies a good or service that is relatively scarce. Spectrum licences, for example, which are necessary for firms wishing to provide mobile, wireless and broadcast services, are often issued to those firms at prices that far exceed the costs of managing or allocating that spectrum. In the case of spectrum licenses, there is now agreement among economists that the best way to assign scarce spectrum resources to those with the highest willingness to pay is through a mechanism such as an auction rather than through cost reflective pricing that would recover the costs of managing or allocating the spectrum.[14]

As inventory is finite for suppliers of online property advertising services – that is, there can only be a limited number of properties listed on the first page, or at the top, of search results of the

[13] Bishop, S. and Walker, M., 'The Economics of EC Competition Law: Concepts, Application and Measurement' (2010), pp.238.

[14] See, for example, Coase, R., 'The Federal Communications Commission', Journal of Law and Economics (1959).

platform at any time – higher prices will ensure that scarce available capacity is allocated to those agents (and their vendors) with the highest willingness to pay, again reflecting the value to those agents. In the absence of higher prices, premium space on the website or app could be allocated arbitrarily and without reference to "willingness to pay", such that some agents who place a high value on a property being displayed prominently will simply miss out.

Third, firms will set prices that depart from costs in markets where they can "price discriminate" between customers. "Price discrimination" refers to a common strategy used by firms to provide differential pricing for similar (or the same) goods or services in different markets or to different groups of customers within the same market. It is commonly accepted in economics that there are three different degrees of price discrimination as follows:[15]

- First degree price discrimination: Goods are sold to each separate consumer at a different price. This is also known as perfect price discrimination as the prices charged maximise each consumer's willingness to pay.

- Second degree price discrimination: The firm offers a range of products that entices consumers with a higher willingness to pay to purchase the more expensive products and those with a lower willingness to pay to purchase the cheaper ones. The most common forms of second degree price discrimination are volume discounts.

- Third degree price discrimination: Consumers are able to be split into separate groups (based broadly on their willingness to pay) and different prices are charged for products across the groups.

While first degree price discrimination is rare in practice,[16] second and third degree price discrimination are commonly used by firms in competitive markets.

Second and third degree price discrimination allows firms to charge a lower price to those with a lower willingness to pay and a higher price to those with a higher willingness to pay. If a firm was not able to price discriminate in this way, then it might be forced to charge a uniform price at a level that meant that those with a lower willingness to pay were effectively shut out of the market. In those conditions, the total output produced by the firm would be lower than when the firm was engaging in price discrimination and society would be worse off. Shapiro and Varian, for example, note that airlines and retailers use price discrimination to attract price sensitive customers to products that they would not have otherwise purchased.[17]

Price discrimination, therefore, is a strategy that is widely used as an effective instrument by firms that do not have substantial market power in order to achieve allocative efficiencies (by ensuring that those who are willing to purchase are able to do so), dynamic efficiencies and consumer benefits.

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[15] Pigou, A. 'The Economics of Welfare' (1935). Available at: http://lf-oll.s3.amazonaws.com/titles/1410/0316_Bk.pdf.

[16] Bishop, S. and Walker, M., 'The Economics of EC Competition Law: Concepts, Application and Measurement' (2010), p.251.

[17] Shapiro, C. and Varian, H. 'Information Rules – A Strategic Guide to the Network Economy' (1999). Available at: http://www.uib.cat/depart/deeweb/pdi/acm/arxius/premsa/information-rules%20VARIAN%20SHAPIRO.pdf.

As discussed in section 2 of this report, REA's pricing structure partly reflects that agents will seek to differentiate their properties through premium advertising. REA's pricing structure seeks to respond to that demand by offering a range of options, including more expensive options for those agents with a willingness to pay for highly differentiated or scarce space. For example, a "Premiere" listing generates considerably more views and generates many more enquiries than a "Standard" listing. These views and enquiries are ultimately what leads to a sale and are valued by agents and their vendors. There is no simple (or sensible) way to relate the prices for these services to the costs of providing them – nor any reason to do so, given the clear value that these listings provide to agents (over and above their cost).

REA's pricing also differentiates between agents in two other ways:

- First, by offering discounts to agents if they place all of their listings on REA's platform. This sort of structure could be classified as second degree price discrimination as the lower prices achieved as a result of accessing the discount is a way that agents "self-select" themselves to reveal that they have a lower willingness to pay.[18]

- Second, by pricing its products differently depending on the geographic location of the listing. Such a pricing strategy is consistent with third degree price discrimination where firms use information about their customers (in this case their location) to price discriminate.

As such, these second and third degree price discrimination practices by REA enable it to recover its fixed costs and serve more agents than it would under uniform or cost reflective prices.

To conclude, PMG's allegation that prices do not reflect costs and that this is a sign that REA is "dominant" cannot be supported. There are a number of reasons why we would expect prices in a competitive market to be set above costs, particularly above short run marginal costs, and these outcomes are consistent with economic efficiency. The more relevant question is whether REA faces competition from rivals when setting prices and we address that in the next section.

## 3.2. How does the fact that REA operates a two-sided platform affect REA's price setting?

Property advertising platforms can be described as "two-sided", which means that they connect two distinct groups with interdependent interests. On one side of the market are agents and other organisations who seek to advertise properties for sale (on behalf of vendors). On the other side of the market are consumers who seek to buy properties.

The inter-dependency arises because the members of each group need the other group to realise the value of the platform, although the degree of importance may be asymmetric. The more consumers that use REA's platform to search for property, the more value the platform has to agents (and ultimately vendors) as this increases the likelihood that an advertised

[18] Bishop, S. and Walker, M., 'The Economics of EC Competition Law: Concepts, Application and Measurement' (2010), pp.251.

property will be successfully sold. Similarly, more options on a platform in the form of a greater number and variety of properties listed, will attract more buyers. The fact that REA operates a two-sided platform has two implications for its pricing strategy:

- first, the extent of "multi-homing" is an indicator of competition in that side of the market; and
- second, the way that prices are set on both sides of the market will determine whether simple rules such as "prices should reflect costs" can be applied in this industry.

We examine each of these below.

### 3.2.1. The implication of "multi-homing" for substantial market power

Multi-homing occurs when users on either side of a two-sided market use more than one platform to fulfil their needs (for example, an agent may prefer to list their properties on more than one platform). To the extent that it occurs, multi-homing reduces the impact of indirect network effects and lowers barriers to entry and expansion in a two-sided market by making the market less liable to "tip" in favour of a few (or even just one) platform.

Direct network effects are the benefits that a user receives from more users joining the network. For example, a user of an online messaging service benefits from more users joining the service because it increases the number of people they can contact. An indirect network effect occurs in a two-sided market when users on one side of the market benefit from more users on the same side of the market joining, because it attracts more users (or greater investment) on the other side. For example, an owner of a DVD player benefits from a greater number of other DVD player owners because it attracts firms to provide more content in the DVD format.[19]

Property platforms exhibit indirect network effects. In particular, having more buyers on a property platform benefits each individual buyer because it attracts more agents on the other side of the market (who list a greater number of properties over which buyers can search). Similarly, having more agents on a property platform benefits each agent because it attracts more potential buyers to visit the platform (and thereby increases the probability that a property advertised by an agent will be sold).

Multi-homing on the buyers' side of the market creates additional opportunities for rival platforms (print or digital) to compete. If there is evidence that buyers are prepared to trial other platforms or also refer to secondary platforms in their property searches, this lowers barriers to

[19] See Farrell, J., and Klemperer, P., Coordination and lock-in: competition with switching costs and network effects', *Handbook of Industrial Organization* (2007), Volume 3, edited by Armstrong, M., and Porter, R., Elsevier. The authors note at page 1,974 that

*"A good exhibits direct network effects if adoption by different users is complementary, so that each user's adoption payoff, and his incentive to adopt, increases as more others adopt. Thus users of a communications network or speakers of a language gain directly when others adopt it, because they have more opportunities for (beneficial) interactions with peers.*

*Indirect network effects arise through improved opportunities to trade with the other side of a market. Although buyers typically dislike being joined by other buyers because it raises price given the number of sellers, they also like it because it attracts more sellers. If thicker markets are more efficient, then buyers' indirect gain from the reequilibriating entry by sellers can outweigh the terms-of-trade loss for buyers, and vice versa; if so, there is an indirect network effect."*

new entry and expansion and facilitates competition by smaller competitors. Similarly, agents' ability to switch at least some of their advertising to other platforms would also act as a strong constraint on a leading platform when considering its pricing and service offers to agents.[20]

Of course, multi-homing does not imply that buyers do not have a preferred platform on which they are likely to rely for the most part. It only implies that buyers are able to use other platforms, and that a proportion of buyers do so, when they search for properties or related information. The potential indirect network effects discussed above would be undermined if buyers use these other platforms. Market evidence suggests that there is a significant degree of multi-homing in both groups of users (agents and potential buyers), which has implications for the competitive constraints other platforms impose on property platforms (such as REA).

More specifically, the residential consumer property seeker survey conducted by REA in [redacted] shows that a significant proportion of buyers use information on more than one platform when they make purchasing decisions. For instance:

- [redacted] per cent of survey respondents who were looking to buy or had bought a property in the preceding 12 months used both realestate.com.au and domain.com.au, only [redacted] per cent of the same group used realestate.com.au but not domain.com.au, and only [redacted] per cent of the same group used domain.com.au but not realestate.com.au;
- [redacted] per cent of survey respondents who were looking to buy/sell/rent/lease out or had done so in the preceding 12 months, and information seekers, used both the REA and the Domain apps, [redacted] per cent of the same group used the REA app but not the Domain app, and only [redacted] per cent of the same group used the Domain app but not the REA app; and
- [redacted] per cent of survey respondents who were looking for a property to buy or had bought a property in the preceding 12 months used both online and print, whilst only [redacted] per cent of the same group only used online, [redacted] per cent of the same group only used print. The mean number of resources used by this group was [redacted].[22]

The fact that only [redacted] per cent of buyers use both REA and Domain websites suggest that agents who use REA are also likely to post their property listings on Domain (and vice versa) for as long as they wish to capture the remaining [redacted] per cent of buyers who only use one of the two platforms. Similarly, as only [redacted] per cent

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[20] See also Rochet, J.C., Tirole, J., 'Platform competition in two-sided markets' (2003), *Journal of the European Economic Association 1*, pp. 990–1029., which states at page 993 that *"multihoming on one side intensifies price competition on the other side as platforms use low prices in an attempt to steer end users on the latter side toward an exclusive relationship."*

[21] [redacted]

[22] The main resources listed include websites, iPhone/Android/iPad apps, social network pages – friends & family, social network pages – property sites, social network pages – agents under online category; local community newspapers, metro newspapers, and local magazines under print category.

of buyers used both online and print together, this again creates opportunities for digital only and print only platforms to grow in the market.

Market evidence also suggests that agents (and vendors) tend to use more than one platform for advertising properties. As shown from the same survey, a significant proportion of vendors use more than one channel or platform to advertise their properties.[23] In particular:

- [redacted] per cent of survey respondents who were looking to sell or had sold properties in the preceding 12 months used both online and print, whilst [redacted] per cent only used online, [redacted] per cent only used print. The mean number of resources used by vendors was [redacted];

- [redacted] per cent of survey respondents who were looking to rent or had moved into a rental property in the preceding 12 months and used websites said that they used both realestate.com.au and domain.com.au, [redacted] per cent used realestate.com.au but not domain.com.au, and [redacted] per cent used domain.com.au but not realestate.com.au; and

- when asked which specific iPhone/Android/iPad apps they do and did use, [redacted] per cent of survey respondents who were looking to sell or had sold a property in the preceding 12 months and who had used apps, said that they used both REA and Domain apps, [redacted] per cent used the REA app but not Domain's app, and [redacted] per cent used the Domain app but not REA's app.

### 3.2.2. Setting prices for two-sided platforms

The fact that REA operates a two-sided platform also has important consequences for the way that prices are set. REA could, for example, set prices for consumers to search for properties that recover no more than the short-run marginal costs of providing that service. But because consumers are likely to have a relatively high elasticity of demand and low switching costs, they would be likely to abandon REA and move to a platform that allows them to search at a lower (or zero) cost. The reduction in the number of consumers searching for properties on REA's platform would make access to the platform less valuable to agents, and could lead to a decrease in demand on the other side of the market.

This provides an explanation of why we see the pricing outcomes that we observe for the online property advertising services in Australia. Prices for consumers (who have a very elastic demand) are set at zero (that is, well below costs) and prices on the other side of the market will consequently have to be set well above costs.

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[23] [redacted]

This outcome can be both efficient and consistent with a competitive market.[24] Setting a price that reflects costs on both sides of the market in order to meet the criticism made by PMG that the prices charged by REA are not reflective of the cost of the service[25] is likely to lead to less demand for REA's services (from consumers), and less investment and innovation as a result (because the service will consequently be less valuable to agents). It appears impossible to reconcile such an outcome with economic efficiency.

## 3.3. Does REA face effective competition from rivals?

We have not attempted to define the market for the purpose of this economic report, but have considered the extent to which REA is constrained by firms offering similar services (this is not to say that REA does not also face effective competitive constraints from other sources, such as print advertising – however, for the purposes of this report we have focused on competing suppliers of digital advertising services). In doing this we address the following questions:

1. How strong is the competitive constraint provided by Domain?
2. Who are the other suppliers of online property advertising services?
3. Do agents provide a constraint to REA?

### 3.3.1. How strong is the competitive constraint provided by Domain?

PMG claims that the market is dominated by REA and, in some regions, also by Domain.[26] However, it is not possible to have two dominant suppliers in the market because – as we show below – each would constrain each other.[27]

As can be seen from Figure 2 below, although REA maintains a sizeable lead over Domain in terms of relative website traffic, the number of visits on Domain's website had increased to [redacted] of the number of visits on REA's website by February 2016.

[24] Rochet, J.C., Tirole, J., 'Platform competition in two-sided markets' (2003), *Journal of the European Economic Association 1*, pp. 990–1029.

[25] Application, pp.4.

[26] Application, p.3.

[27] PMG's allegation that market is dominated by two firms may be alleging that the market is subject to tacit coordination. However, we do not believe that this is what PMG intended and have not addressed this issue in any detail in this report.

**Figure 2: Number of visits to REA's website and the proportion of Domain website visits to REA visits**

[redacted]

*Source: REA and Domain website visit data extracted from Nielson Market Intelligence system*

Vigorous competition between REA and Domain is also supported by other factual evidence: they both offer similar listing options despite having different pricing models and they compete head to head on product innovation. For example, REA launched an app for the Apple Watch in March 2015 which allows listings to be viewed on Apple Watch, and property buyers to receive watch-based alerts about newly-listed properties in areas of interest. Domain launched a similar app during the same period. Other examples include the launch of 3D Virtual Tours in 2014/2015, which allows agents to deliver virtual "walk-throughs" of properties to enhance search experience,[28] and the launch of the School Information app in early 2015[29]. Further, both REA and Domain have invested in national comparative advertising campaigns targeted at one another.

Moreover, the mobile app usage data also supports the view that Domain competes head to head with REA. Figure 3 compares the monthly number of user app sessions for REA and Domain's apps.

[28] 'Real estate agents' 3D technology enables virtual open homes, available at http://www.domain.com.au/news/real-estate-agents-3d-technology-enables-virtual-open-homes-20141025-11brpu/.

[29] REA: http://www.realestate.com.au/blog/should-you-buy-property-near-a-school/; Domain: 'School Zone Feature – is the home you want to buy in the right school catchment area?', available at http://www.domain.com.au/group/press_release/domain-launches-school-zone-information-real-estate-listings/.

**Figure 3: CONFIDENTIAL: Monthly number of app sessions for REA and Domain apps**

[redacted]

*Source: REA app session data extracted from Adobe Omniture system. Domain app session data provided by Google Analytics.*

Figure 3 above shows that the number of monthly app sessions for REA and Domain were [redacted] calendar year. In some of the months during the period there were [redacted] app sessions than [redacted] app sessions. This again demonstrates that Domain is an effective competitive constraint on REA.

### 3.3.2. Who are the other suppliers of online property advertising services?

REA also faces competition from other online property advertising platforms such as RealestateView, REIWA and Homehound. To illustrate:

- RealestateView offers standard, upgraded (at varying levels) and mobile and tablet app monthly subscriptions, and it seeks to differentiate itself by offering agents access to data, insights and general advice as well as listing products.[30] It has achieved an average monthly audience of over one million unique visitors and, in June 2015, over 1.4 million people visited the site.[31] Over 4,200 agents advertise their listings with

[30] RealestateView, 'User profile survey: property search', http://rev-advice.s3-ap-southeast-2.amazonaws.com/wp-content/uploads/2014/06/REV3369_REV_AudienceProfile_RENTERS_FactSheets_FA_.pdf (accessed 5 May 2016).

[31] RealestateView, 'Site Statistics & User Profile', http://www.realestateview.com.au/sitestats/ (accessed 5 May 2016).

RealestateView.[32] The 2014 Nielsen study shows that 57 per cent of survey respondents always or often visit realestateVIEW.com.au when looking for a property.

- REIWA is a not-for-profit, industry-owned organisation representing over 1,100 agencies and more than 90 per cent of the agents in Western Australia.[33] REIWA claims that reiwa.com.au attracts more than one million[34] visits from over 400,000 unique visitors per month and generates approximately 7 million page impressions and 65 million searches per month.[35] REIWA offers three listing options: Essential, Headline and Feature, which increase in price according to their value (e.g. in terms of priority listing, larger images and greater prominence).

- Homehound has arrangements with over 4,000 agency offices and 20,000 agents, maintains approximately 150,000 active listings and has over 200,000 subscribers to its property newsletters.[36] Homehound offers a free, standard subscription and a "Gold Premium Subscription" to agents to list their properties on Homehound.[37]

As shown in Table 1 below, data provided to REA by CoreLogic shows that these competitors accounted for at least [redacted] of the total number of REA's property listings at the national level. As Table 1 below outlines listings as a proportion of REA's listings that were also displayed on other platforms and does not account for any listings that were not on REA, it understates the threat posed by these platforms.

**Table 1: Top 5 real estate platforms share of national residential property listings, as a proportion of REA's average monthly listings (August 2015 to April 2016)**

| | Share as a proportion of REA's average listings |
|---|---|
| **Domain** | [redacted] |
| **Homehound** | [redacted] |
| **Allhomes** | [redacted] |
| **RealestateView** | [redacted] |

*Source: CoreLogic. Note: REA's average monthly listings over the period are* [redacted] *based on the CoreLogic dataset.*

The strength of the constraint faced by REA is also evident when viewed at the state level. In certain states, the strength of individual competitors is even greater than what the national figures suggest. For example, in Western Australia, RealestateView is significantly stronger and is [redacted] after REA and [redacted] Domain. REIWA is also a significant competitor in Western Australia with over [redacted] per

[32] RealestateView, 'Site Statistics & User Profile', http://www.realestateview.com.au/sitestats/ (accessed 5 May 2016).
[33] REIWA, 'About Us', http://reiwa.com.au/about-us/ (accessed 13 May 2016).
[34] REIWA, 'Advertise with us', http://reiwa.com.au/about-us/advertise-with-us/ (accessed 13 May 2016).
[35] REIWA, 'Advertise with us', http://reiwa.com.au/about-us/advertise-with-us/ (accessed 13 May 2016).
[36] See https://www.homehound.com.au/about/.
[37] See https://www.homehound.com.au/advertise/ (accessed 13 May 2016).

cent of REA's average number of listings. In the Australian Capital Territory, Allhomes accounted for [redacted] and in Tasmania, it is significantly stronger than the number of listings that its national figures suggest.

### 3.3.3. Other ways of advertising properties to prospective buyers

REA is also constrained by the actions of real estate agents themselves who can determine how to allocate their marketing budget across different media channels. For example, agents generally list their properties online on their own websites and apps and also provide printed publications of their properties in brochures, in the windows of their local offices and/or on signboards in front of the properties. Properties are also frequently listed in print publications such as local/community newspapers, metro newspapers and local magazines. This is shown in the results of the REA Residential Consumer Property Seeker Report figures for the 12 months to [redacted] presented in Table 2 below.

**Table 2: Results of the REA Residential Consumer Property Seeker Report**

| | Used by buyers |
|---|---|
| **Websites** | [redacted] |
| **Attending open for inspections** | [redacted] |
| **Local/community newspapers** | [redacted] |
| **Speaking to agents in person / over the phone** | [redacted] |
| **Agency windows** | [redacted] |
| **Mobile and tablet apps** | [redacted] |
| **Agency magazines / brochures** | [redacted] |

*Source: REA, 'Residential Consumer property seeker report',* [redacted]*, p.81; RBB analysis.*
*Notes:* [redacted] *(iii) The table only shows those sources used by* [redacted] *per cent or greater of buyers (iv) The survey statistics focusing on property renters are* [redacted].

As shown in Table 2 above, over [redacted] per cent of buyers used websites of the property search websites (such as those supplied by REA and Domain) or agents' websites, over [redacted] per cent used local/community newspapers, almost [redacted] per cent used agency windows, [redacted] per cent of buyers used mobile and tablet apps, and over [redacted] per cent used agency brochures and agency signboards as well as metro newspapers.

# 4. Bargaining and the potential anti-competitive effects of a strong buyer group

The justification provided by PMG for its proposed buyer group is as follows.[38]

- Collective bargaining would help to achieve more equal bargaining power between the parties and strengthen the likelihood of a truly competitive market for online property advertising.
- A collective boycott would be required to produce outcomes which would more closely approximate those that one would expect to experience in efficient and competitive markets.

In this section we address the following questions:

- First, whether the ability of PMG to collectively bargain and boycott (that is, to engage in the proposed conduct) will deliver the benefits set out by PMG in its Application.
- Second, whether consumer welfare could be harmed if the proposed conduct led to the creation of a buyer group with substantial buyer power.

## 4.1. Will the proposed conduct deliver the benefits set out in the Application?

PMG argues that the proposed conduct will lead to a number of benefits including:

- “more even” negotiations between REA and agents;
- lower costs to agents; and
- lower costs to vendors.

We examine each of these below.

### 4.1.1. Would the proposed conduct lead to more even negotiations?

PMG claims that collective bargaining would help to achieve more equal bargaining power between the parties and strengthen the likelihood of a competitive market for the supply of online property advertising. Such an argument presumes that competitive markets require firms to be similarly sized in order to engage in a “fair” negotiation.

Although we have not undertaken an assessment of whether or not the proposed conduct will create a buyer group with a substantial degree of market power in this report (and we discuss this in the next section), we note that economic theory does not require a buyer or a buyer

[38] Application, p. 22.

group to be large or particularly strong in order for the negotiation between it and a supplier to be "fair" or to achieve an efficient outcome. In other words, the relative size of the parties does not necessarily correlate to the bargaining power that each party has in a negotiation and there is persuasive empirical evidence showing that mere size alone does not, of itself, confer bargaining power.[39]

As the ACCC noted in its Grocery Inquiry, bargaining power may be more closely related to the relative values of the firms' "outside options" than it is to their respective sizes alone.[40] [41] "Outside options" refers to the best options that either the buyer or the seller could achieve if they walk away from the negotiations.[42]

In the current matter, agents already have outside options, including the following.

- Agents could choose to move their properties onto other digital property platforms such as Domain, Review Property, REIWA, agents' own websites, and/or non-digital platforms such as newspapers and magazines. The relative value of alternative options to agents may differ depending on the locations of the agents, the types of properties in their inventory and their targeted audience, but those options will remain available even in the absence of the Proposed Application.

- Agents or vendors could also choose to shift some of their advertising spend from REA to alternative platforms if they are not able to extract a reasonable offer from REA. For example, an agent may choose to place "premium" differentiated listings for a particular property on Domain and only use REA's platform for a standard listing for that property.

The existence of outside options for agents is consistent with the competitive constraints discussed in section 3.3 of this report. Indeed, our understanding is that REA has experienced agents excluding it or threatening to exclude it from advertising schedules that they prepare for vendors. REA has also experienced agents threatening to recommend that vendors not use REA's products on an ongoing basis. Given the importance to REA of having as many buyers as possible using its platform in order to create value for agents, these threats made in the context of robust negotiations carry considerable weight.

When commercial negotiations are viewed through this sort of bargaining framework, the relative size of the parties in the negotiation becomes less important. In the current matter, and despite its relative size, the nature of REA's business model implies that it actually has limited outside options. Agents use REA to reach potential buyers. It is therefore important for REA to attract as many buyers as possible to its platform to search for properties and related information. Regardless of their size, agents are important to REA as they not only contribute to the overall advertising revenue generated by REA, but also have access to property listings which are often different across agents and which attract buyers to REA's platform.

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[39] ACCC, 'Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries', July 2008, p. 314. See also Ellison, S. F. and Snyder, C. M., 'Countervailing power in wholesale pharmaceuticals', (2010) *The Journal of Industrial Economics* Volume 58, Issue 1, pp. 32–53.

[40] ACCC, 'Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries', July 2008, p. 314.

[41] "Value" in this context refers to the credibility, and the implied economic benefit of "outside options".

[42] ACCC, 'Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries', July 2008, p. 314.

For these reasons, looking at the relative size of the firms in a negotiation is unlikely to yield any meaningful insights about whether bargaining power would be made “more equal”. Any assessment of whether bargaining power is currently unequal will, instead, need to consider whether there is an *imbalance* in the outside options available to REA and agents (which would be redressed by approving the Application). These issues have not been addressed by PMG, and based on the evidence presented above, we consider that this is not likely to be the case.

Moreover, as further explained in section 4.2 below, an aggregation of bargaining power in the hands of PMG has the potential to cause significant harm even if it does not change the availability of outside options.

### 4.1.2. Will the proposed conduct lead to lower advertising prices for vendors and more efficient outcomes?

This section discusses the extent to which the buyer group is likely to benefit from economies of scale, and the extent to which any cost savings are likely to be passed through to vendors.

A buyer group that negotiates on behalf of individual buyers could in theory benefit from economies of scale and thereby reduce transaction costs for each agent if there exist some common costs among buyers that can be centralised and duplicated costs can be removed through the buyer group. However, in order to establish that such cost savings are material, it is necessary to identify the source and extent of such savings. For instance, one possible source of transaction costs in the current matter are the administrative costs to agents in dealing with REA, Domain, and other property platforms.

It is unclear how and whether agents are willing to change their business structure to reduce these transaction costs if the Application is granted. For example, by downsizing their own team and facilities that are currently in place to negotiate with REA and other rival platforms, agents in the PMG buyer group may be able to reduce some related costs.

This, however, assumes that agents can and will be willing to completely outsource such tasks and we have not seen evidence that this is likely to be the case. It is also possible that instead of reducing costs, collective bargaining could duplicate costs as advertising suppliers will be required to negotiate with PMG and agents. Moreover, PMG has not presented any evidence to show how substantial the transaction costs are, to what extent the proposed conduct will remove any potential duplication, and more importantly, whether it is even realistic for agents within the buyer group to avoid interactions with REA or other platforms directly if the Application is granted.

### 4.1.3. Will the proposed conduct lead to lower costs to vendors?

Related to the above, PMG also asserts that the ability to collectively bargain and boycott will lead to lower advertising prices for vendors.

Even assuming that PMG does generate costs reductions, this further assumes that any reductions in online advertising charges to agents secured by PMG from REA (and other suppliers), or any cost savings resulting from collective bargaining, will automatically be passed on to vendors. As discussed below, the likelihood and magnitude of pass-through is highly uncertain.

In textbook models of competition, marginal costs (i.e. those that result from an additional unit of output) rather than fixed costs, affect firms' pricing decisions and hence are relevant for determining the extent of pass-through.[43]

In the present case, PMG operates in an intermediate market and the final consumers are vendors (who would hope to benefit from lower advertising prices).[44] It is therefore crucial to examine the detail of any cost reductions that PMG hopes to achieve in order to assess whether they are likely to be passed through to vendors in the form of lower advertising prices. PMG has not provided any information for that analysis to be undertaken.

## 4.2. Potential anti-competitive effects of creating a strong buyer group

Section 4.1 above showed that the proposed conduct is unlikely to deliver the benefits set out by PMG in its Application. That, however, should not be taken to mean that the proposed conduct is likely to be benign. There is a real risk that the creation of a media buying group comprising of multiple agents, as a result of the proposed conduct, could create substantial market power. This could significantly distort competition across different levels of the supply chain. In a competitive market and in circumstances where public benefits have not been demonstrated, regulatory intervention should not be undertaken lightly.

### 4.2.1. Distorting competition between REA and its competitors

Given that there are neither theoretical reasons nor empirical evidence to support the claim that the prices charged by REA are above "competitive" levels, there is the real risk that the exercise of substantial buyer power by PMG could result in prices being driven down to levels that are lower than those that would be consistent with competitive markets.

Such an outcome, would be inconsistent with economic efficiency as it would blunt the ability of the price signal to allocate resources to their most productive use and deter future investment and innovation.

The online property advertising industry is characterised by significant ongoing investments and REA allocates a considerable amount in product research and development each year. It has, for example, recently invested in new Android apps, wearable technology and introduced virtual reality and 3D tours as a feature on its platform. It has also invested heavily in its data-driven (and patented) market-based pricing model to set prices. REA, as well as other suppliers that invest in innovation, are likely to set prices above unit costs in order to recover the up-front

[43] See RBB (prepared on behalf of the UK's Office of Fair Trading, 'Cost pass-through: theory, measurement, and potential policy implications', February 2014, available at https://www.gov.uk/government/publications/cost-pass-through-theory-measurement-and-policy-implications, pp. 29-30.

[44] When final consumers exert buyer power to obtain better terms of supply, there is no issue of pass through. See 'The Competitive effects of buyer groups, A report prepared for the OFT by RBB Economics', January 2007, paras. 1.35-1.40.

investments that they make. Those prices should not be seen as excessive, but are instead a competitive reward for innovation.

It is important to also acknowledge that when REA entered the digital advertising market, it was willing to incur risks and made substantial investments which did not initially generate a return. Over time, however, REA's willingness to incur risks and undertake investments that provide value to agents and potential buyers enabled REA to become profitable. In future, in circumstances where the proposed conduct results in PMG using negotiating leverage to drive down prices charged by agents, REA may not have sufficient incentive to take similar risks and undertake similar investments in order to develop products and services that offer additional value to agents and potential buyers.

Collective boycotts could enable PMG to extract more changes to the terms of supply with REA than if agents were negotiating individually. For instance, if the agents, through PMG, were to follow through on a threat to remove all of their listings from REA's platform and move them to a competing platform such as Domain, this would dramatically decrease the value of REA's platform to potential buyers (and thereby to agents).

Such an outcome would harm REA, potential buyers, agents and vendors.

- The potential harm to REA is obvious: the more agents (and property listings) are captured by the boycott, the larger impact it would have on REA's ongoing business as it represents an interruption that could lead buyers to move away from REA. This would also prevent REA from earning a return on its investment and impair ongoing development necessary to attract a greater audience and more agents to its platform.

- Consumer welfare would be directly harmed by the degradation of REA's platform if the incentive to invest and innovate was reduced. For example, new and innovative functionalities providing value to agents and consumers would be less likely to be introduced. Consumer welfare would also be reduced if potential buyers were required to switch to platforms that were not their first preference.

- The potential harm to agents (and vendors) could be twofold. First, agents who participate in such a boycott would no longer list (or would list using lower quality options) on one of the largest and most important digital platforms for a period of time. That means agents (and the vendors they represent) would not be able to list their properties on REA for as long as the collective boycott is in place. Second, the agents who do not participate in the boycott could also be harmed as fewer listings could deter some buyers away from using REA's platform, and thus could reduce the value of REA's platform to agents who continue using REA to advertise their properties.

Some platforms may benefit from a collective boycott of REA in the short term for instance by absorbing listings that would have been posted on REA, or by gaining more property advertising spending from those agents that participated in the collective boycott (spending that would otherwise be allocated to REA in the absence of the collective boycott against REA). However, this does not necessarily represent an overall improvement in market efficiency. Having a large buyer group to dictate the trade terms is likely to skew the investment incentives of all platforms in the market, which rely on continuous innovation and investment to better understand and respond to consumer needs.

### 4.2.2. Softening competition between agents

Collective bargaining and boycotting through PMG might *directly* harm downstream competition (that is, competition between agents for commercial and residential property) by weakening the incentive to compete with each other.

One way in which downstream competition could be harmed is that using PMG to negotiate on behalf of agents could "rigidify" the market for advertising spend. At the moment, agents work with REA to develop packages that can help them achieve the best results for their vendors. Often those changes will be driven by insights identified at a local level. Innovations such as the introduction of "market zones", for example, and other changes such as the "Premiere All" contract came from discussions with agents who requested change from REA after drawing on their experience of what was required to meet the needs of their vendors at a local level.

The introduction of PMG as an "agent" between REA, on the one hand, and real estate agents, on the other hand makes it less likely that these sorts of innovative changes would emerge. For example, a change such as the introduction of "market zones" may have been less likely to emerge under PMG's model simply because the agents that sign up to PMG are likely to have divergent interests. And the wider the coverage of the buyer group, the harder it will be to identify common ground across all of the agents and to negotiate effectively with REA.

In the longer term, however, the inability of PMG to agree and push changes that could promote genuine competition between agents will mean that PMG will revert to simply trying to drive down the prices that agents pay for advertising with REA below the levels that are consistent with those that are found in a competitive market. This is likely to lead to longer term detriment as incentives to invest and innovate will be further eroded.

### 4.2.3. Foreclosing agents outside the buyer group

Collective bargaining and boycotting could also *indirectly* harm downstream competition by adversely affecting the terms of supply for agents who choose not to join the bargaining group. The bargaining group could deteriorate the terms of supply for rival agents (that is, those agents outside the bargaining group) by raising the input costs of other agents or by adopting strategies to reduce benefits available to rival agents.[45]

One way that the bargaining group might reduce the benefits available to rival agents would be to induce REA, Domain or other suppliers to adopt a technology, quality level, or means of delivery more favourable to agents in the bargaining group and less favourable to rival agents.

Another possibility is that the bargaining group will obtain low prices for agents in the group, and induce REA and others in negotiation with PMG to increase prices charged to agents outside

[45] 'The Competitive effects of buyer groups, A report prepared for the OFT by RBB Economics', January 2007, para. 1.56.

the group in order to cover their overall costs and maintain their investment in product development and innovation.

This risk will be heightened the wider the coverage of the buyer group. The reason for this is that one way the buyer group will raise the cost of rival buyers (that is, those buyers that are outside of PMG's umbrella) could be by paying REA (or other platforms) not to list agents that are not part of PMG.[46] The platform owners would need to be compensated for giving up the right to list other agencies and that compensation will be smaller the wider the coverage of PMG's buyer group.

# 5. Conclusion

The main conclusions from this assessment of PMG's Application for Authorisation are:

- We find no evidence that REA's prices are "substantial" or higher than is to be expected in a competitive market, even though they are unlikely to reflect the marginal costs of providing an additional property listing. We set out in this report a number of reasons why efficient prices may well exceed costs and that such a departure does not suggest that prices are reflective of substantial market power or a lack of competition.

- We also find that although REA is a leading digital property platform in Australia, it faces strong competition from many rivals in the market including other online property platforms and print media.

- We then turn to the alleged benefits of the proposed conduct and find that these are unlikely to materialise. There is, for example, no need for firms to be of a similar size in order to achieve an efficient negotiation. Any cost savings from placing PMG between REA and agents are also unlikely to be material. Finally, and importantly, there is no assurance that any cost savings will be passed on to vendors and economic theory shows us that any pass-through is uncertain.

- Finally, we find that there is a real risk that the proposed conduct could lead to a buyer group with a substantial degree of buyer power that could, to a considerable extent, dictate industry terms of supply. Such a buyer group could engage in conduct that could cause considerable harm to REA, agents, and the competitive process.

[46] 'The Competitive effects of buyer groups, A report prepared for the OFT by RBB Economics', January 2007, para. 6.9.