

Submission to the Australian Competition and Consumer Commission (ACCC)

Restriction of Publication of Part Claimed

A.P. Eagers Limited application for merger authorisation - MA1000018

Submission: [REDACTED] a commercial vehicle dealership in Victoria

Date of submission: 2 July 2019

Overview of business

1. [REDACTED] sells new and used trucks. [REDACTED] as well as spare parts and finance.

Prime Marketing Areas (PMAs)

2. [REDACTED] PMAs vary by brand and are set by the manufacturers. For example, [REDACTED] considers that the Daimler brands supplied by AP Eagers / AHG would have similar PMAs, but with an additional Daimler dealership in Somerton, in the north of Melbourne, that is owned by the manufacturer.

3. [REDACTED]

Sales of new trucks

4. [REDACTED] sells light, medium and heavy duty trucks. A number of manufacturers supply trucks in each category in Australia. Isuzu is the leader in light and medium duty trucks and in heavy duty trucks the leaders are Kenworth and Volvo.
5. The majority of the trucks [REDACTED] sells are made to customer requirements and involve significant customisation. Lead times for purchase can be lengthy and depend on the brand and the order.
6. For example, [REDACTED] generally take 8-12 weeks of lead time. However, trucks already fitted with a body and in dealer stock [REDACTED] can be on the road within 48 hours of purchase.
7. Servicing and repairs of trucks after they are bought are often undertaken by the dealership (not at a capped price), by independent repairers or by the customer itself.

Dealership costs and pricing for new trucks

8. It is rare for truck brands or dealerships to list their recommended retail prices (RRP) online. However, they will offer dealerships a list price, with various discount structures.
9. Dealerships vary in how they price to customers. Some dealerships will discount from the list price offered by the manufacturer, or at the heavy duty end of trucks (which can be around \$250-350K), dealers will add on from the cost price. Larger customers purchasing more trucks typically obtain better prices than smaller customers.

10. The price offered is set with regard to competition, however it will depend on the brand. Pricing is more competitive for large volume brands such as [REDACTED], as there are more dealerships.

Competition for sales of new trucks

11. If dealerships are competing with dealerships of the same brand, they compete on price and customer service relating to specification and customisation of the truck.
12. If the dealership is competing with dealerships of other brands, dealerships compete on the quality of the truck such as the weight it can carry and its engine and horsepower.
13. Very few truck manufacturers use key performance indicators (KPIs) for their dealerships financial rewards. Further, KPIs incentives are not as significant as they are in new car retailing and therefore are not core to a truck dealership's revenue.

Customer new truck purchasing behaviour

[REDACTED] customers

[REDACTED] services various types of customer. [REDACTED]

15. [REDACTED] However, the proportion of fleet and non-fleet customers also varies by truck brand. For example, [REDACTED] customers would be approximately [REDACTED].
16. Customers typically shop around and compare prices of trucks (particularly of their preferred brand) at various dealerships before they make a decision on which dealership to buy from.
17. Generally approximately 50% of inquiries are made over the phone, 25% in person, and 25% via internet leads (such as Trucksales). [REDACTED], but almost all customers are businesses and typically require the majority of the process to be undertaken remotely because of the cost to their business of visiting more than once face-to-face. Approximately 80% of the final negotiation on a deal is done in person, and the remainder is by phone or email.
18. [REDACTED] who tend to remain loyal to brands. Customers are quite price sensitive and would expect to be able to get a similar price for a similar truck when they return to the dealership. Customers also share lots of information about pricing with family, friends and acquaintances, so if a good price is offered [REDACTED] to a customer, others will come in and request that price.
19. While customers generally do tend to remain loyal to brands, customers who are more price driven and cannot find a suitable price are more likely to switch brands.

Willingness to travel

20. Customers are generally willing to travel within their state to purchase, and dealers are willing to sell outside their PMAs and deliver out to a customer within their state. However, customers generally do not often travel interstate unless there are very limited options. Larger customers are particularly unlikely to travel interstate including because they often require convenient aftercare from a local dealership.

[REDACTED]

- [REDACTED]
22. Limitations to purchasing interstate include paying stamp duty, CTP insurance and registration, which when purchasing locally are arranged by the dealership on the spot. To purchase interstate, a customer would need to come to the dealership and take delivery of the truck, pay GST and get a short term (5 to 7 day) permit to enable the truck to be driven on the road without registration so that it can be registered interstate but this is quite inconvenient and only a very small proportion of customers do this.
 23. An alternative is that the dealership can deliver the trucks for a fee, which varies depending on the length and mode of delivery. The cost of delivery would be between [REDACTED] depending on the distance, or around 20% more expensive if the customer wanted the truck to be driven on a float.
 24. 40-45% per cent of used trucks are purchased by an interstate customer from [REDACTED], compared with only 5% of new trucks.

National fleet customers

25. Fleet sales are very competitive and volume driven. National fleet customers buy across all categories of trucks (light, medium and heavy). Examples of this kind of customer are large logistics companies such as [REDACTED].
26. [REDACTED].
27. [REDACTED] are generally not involved with pricing for these customers, as the customers will generally negotiate directly with manufacturers, and the dealer will deliver to the customer on the manufacturer's behalf.

Smaller national customers

28. Smaller customers with national requirements can purchase from dealerships anywhere in Australia. No head office is required to service smaller national customers. For example, [REDACTED].
29. For a local dealership to service a national customer, dealers need to cooperate with the customer, and coordinate with dealer brands around the country.
30. If a combined AP Eagers-AHG would not cooperate with the dealer selling to a national customer, the dealership would not be able to service these customers. However, [REDACTED] did not consider that the proposed transaction would have a significant impact on this cooperation.

Other methods of purchasing (brokers or direct)

31. Customers rarely use brokers for purchase. Brokers will mainly be used for truck finance options.
32. Customers can purchase direct from a manufacturer, but generally only national fleet customers will do so. If a smaller customer approached a manufacturer to buy direct, the manufacturer is likely to direct the business to the nearest dealership.

Used truck sales

33. There are a number of trucks that are valuable on the second hand market, such as tipper trucks. Used truck sales is a smaller part of the dealerships operation.
34. Customers will consider a used truck as an alternative to a new truck if it will perform the required function and satisfy their quality requirements (for example, age, mileage,

warranty, condition). For customers that come to a dealership intending to buy a new truck, [REDACTED] estimates that around 25% would consider used trucks and 10-15% may buy a used truck instead of a new truck.

Cost of establishing a dealership

35. The costs of establishing a truck dealership include acquiring land, building the dealership itself, purchasing tools and equipment, and purchasing inventory. Truck dealerships have a significant space requirement.



Proposed acquisition's potential effect on competition

37. AP Eagers and AHG dealerships compete very closely on their Daimler brands. Each also supplies used trucks. AP Eagers and AHG would own the two largest dealerships in metro Melbourne (Laverton and Dandenong).
38. However, within each group dealerships compete closely against each other for the same customers as their general managers or dealer principals are rewarded on the results of their dealership.
39. There is a risk of the acquisition having an effect on competition and pricing for Daimler brands in particular. However this is dependent on whether the combined entity were to change how local dealer principals and general managers operate.
40. Further, a customer could also buy a Daimler truck from the manufacturer owned dealership in Somerton or from an independent dealership in Shepparton.

Ability of combined entity to increase prices

41. If the combined entity increased truck prices post acquisition, customers would be aware because they are quite price sensitive and conscious of costs to their businesses.
42. Customers are able to compare prices with prices of previous purchases from that dealership, with prices from other dealerships and from word of mouth. In the light and medium truck categories, customers are also able to compare with advertised prices online which would be close to the true transactional price offered by a dealership
43. Customers would be able to switch, as there are currently 20 different brands competing in the Australian truck market, with trucks performing similar functions.

Ability of combined entity to decrease service levels

44. [REDACTED] does not consider that the combined entity would be able to lower their service levels post acquisition.

Potential competition effects of combined entity's national presence

45. The main risk for competition is the combined entity having representation for Daimler in every capital city, meaning that a combined AP Eagers-AHG could dictate to Daimler how to conduct its business. However, [REDACTED] considers that manufacturers would be able to prevent any anti-competitive behaviour that could result from this.
46. [REDACTED] considers that that the combined entity might be able to improve its margins by obtaining better prices or discounts from manufacturers. However, manufacturers are typically quite fair between dealerships.