

Record of oral submission to the Australian Competition and Consumer Commission (ACCC)

[Restriction of Publication of Part Claimed – shaded material]

A.P. Eagers Limited application for merger authorisation MA1000018

Submission: [REDACTED] a new car retailer in the Newcastle Hunter Valley region

Date of submission: 5 June 2019

Background

- [REDACTED]

Concerns about the proposed acquisition

- The combined entity will have larger buying power, and decreased overheads, which will provide it with the ability to sell cars more cheaply than its competitors.
- They will be able to buy in bulk from financiers and suppliers of consumables such as lubricants and tyres, reducing their overheads. They will also be able to buy in bulk from manufacturers. Given they are a publicly listed company with responsibilities to their shareholders to maximise profits and therefore share price, these savings will not be passed on to customers.
- The combined entity may undercut its competitors to drive them out of business.
- The combined entity will be a monopoly for employment of automotive staff in Newcastle, which will poach staff for all aspects of the dealership business (sales, technicians, administration, servicing), and cause smaller businesses to go out of business.
- The proposed acquisition would take away the opportunity for consumers to buy from different businesses. Effectively, consumers will be buying from 30 dealerships, all run by APE/AHG.
- The proposed acquisition will increase the size of the merged entity and give it the ability to push back against manufacturers in a way that smaller dealers are unable to.
- Post-merger, APE/AHG will have at least one dealer for the ten manufacturers in Newcastle and the Hunter Valley region, and 14 out of the top 15. Smaller brands make no difference. They will have a greater share of vehicle sales than all other dealerships.

Newcastle and Hunter Valley region

- Many people will shop locally, although they will travel for a big discount. Many people in the Hunter Valley are there because they don't want to be in Sydney and don't want to travel there.

[REDACTED]

- [REDACTED]
- The key competitors are Newcastle, Maitland and Lake Macquarie. [REDACTED] business is done in this region. The market is extremely localised as far as sales and everything else goes. [REDACTED] sells barely any cars in the Central Coast and vice versa. Customers will either buy in Newcastle or Hunter.

Pricing

- [REDACTED]
- A prospective customer may not get the best idea of price by calling dealers. To get the best price they would need to visit each dealer.
- A number of factors are taken into account when determining the level of discount to offer and these factors can vary.
- If customers find a lower price in Sydney, they will try and negotiate to get that lower price. [REDACTED]
- While AHG are fairly new to the area, they have been pretty aggressive in how they operate and the extent of their discounting.
- AHG and APE pump-in to other PMAs by discounting strongly.
- [REDACTED]
- They might try and test the line in discounting by reducing the level, or else they could increase it to drive competitors out.
- If there is one owner controlling the majority of dealerships, this might result in dealers competing less with each other.

KPIs

- It is important for dealers to sell within their PMA and have a high capture rate in their PMA. Manufacturers monitor this.
- [REDACTED]
- The level of bonus many manufacturers offer increases as KPIs are exceeded.
- Manufacturers have their own KPIs that they must meet so will offer discounts and could give better discounts to the merged entity to buy in bulk.

Parts

- It is difficult to judge what the effect the merger would have on parts, as parts can be sold to anyone. However, if they buy in bulk, they can get a better price. It is unlikely that there would be too much difference with parts post acquisition.
- The combined entity would be able to get access to offers relating to products such as oil filters, oil and other perishables, and that post-acquisition, their buying power would be phenomenal.

- If the combined entity became the only wholesaler of a particular product, they would have the opportunity to discriminate by refusing supply.
- It is of paramount importance for independent mechanic/dealer to get parts quickly in order to complete repairs quickly. There is a possibility the combined entity could delay the supply of parts, but it is not happening now.

Servicing

- [REDACTED]
- It is important to sell to customers within your PMA to keep them as a servicing customer. [REDACTED] may give better deals if it knows it will gain servicing revenue.
- Capped priced servicing takes care of standard services, but not anything. For example, they could increase prices on tyres or windscreen wipers, and other consumables or add-ons. A large portion of work done is in the area of repairs and unlike capped price servicing they can charge what they like. The only thing that regulates the repair hourly rate is competition in the immediate area, as repair jobs can't travel far. With them having every outlet for 8 major franchises in the Newcastle, Lake Macquarie and Maitland areas they have no competition there and could lift charges.

New entry

- There is no Open Point PMA in Newcastle, and as such, no opportunity for new entrants.
- In regards to establishing a dealership, it is just a matter of finding the land and having deep pockets to build it. The average cost is anywhere between \$5-20 million.

Sale of dealerships

- Thinks that post-merger, competitive tension in the purchase/sale of dealerships would be lost, as there would be one potential buyer instead of two, and that entity wouldn't be able to purchase us given the market share they already have.
- There are no other dealers that are buying up in the Newcastle/Hunter region to the same extent as APE/AHG.
- Other dealers might find it hard to expand into large brands, and would be stuck with the smaller brands.