

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

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A.P. Eagers Limited application for merger authorisation MA1000018

Submission: [REDACTED], an automotive retailer who operates within the Newcastle / Hunter Valley Region (the Retailer)

Date of submission: 6 June 2019

1. The following oral submissions were made by an automotive retailer who operates within the Newcastle / Hunter Valley Region (the Retailer) [REDACTED]
[REDACTED]

Background

1. The following brands in the following locations are represented by the Automotive Retailer [REDACTED]
[REDACTED]

Customer buying habits

2. Customers use the internet to shop Australia wide, but ultimately end up buying locally. [REDACTED]
[REDACTED]
3. Factors encouraging local buyers to shop locally for new cars:
 - prices are similar whether customers shop locally or further afield
 - convenience due to less travel time and cost
 - customer service benefits, including the Retailer going the extra mile for the customer when vehicles are out of warranty
 - local buyers appreciate the Retailer's level of community involvement, [REDACTED]
[REDACTED]
4. [REDACTED]
[REDACTED]
5. Luxury car Franchisor's Prime Marketing Areas tend to be larger than for other brands – [REDACTED]
[REDACTED]

Servicing

6. Servicing is very much a retention game. Capped/fixed price servicing are very much retention programs.

7. A good servicing experience can lead to future vehicle sales whereas a bad experience can result in loss of customers due to a customer giving negative word of mouth.

Dealer agreements

8. KPIs vary slightly between manufacturers, but are generally based on performance against indicators. The majority of the indicators are not vehicle sales related. KPIs are at the manufacturer's discretion. There's no science to the way manufacturers set KPIs. Manufacturers will frequently 'tinker' with KPIs to encourage dealer behaviours (including midway through a KPI cycle).
9. APE/AHG combined will be able to extract better KPI incentives from manufacturers than those offered to the dealer network as a whole. Therefore reducing the cost of vehicles to the Dealer.
10. A combined APE/AHG may be able to push back against a brand and say "we are not going to push your brand this month" to send a clear message to that manufacturer about who dictates terms.
11. Manufacturers may be willing to terminate dealer agreements for small dealers, but not the big ones. Terminating agreements with big groups would risk retaliation from the remaining dealers within the big group.

Concerns about the merger

12. In addition to concerns raised in its written submission about a reduction in the number of potential acquirers of dealerships in the Newcastle/Hunter region,
13. The Retailer has concerns about scale of the APE/AHG combined –
 - Volume discounts on consumables such as oil and other supplies.
 - The merger will enable APE to reduce costs – for example, APE and AHG each have several people doing marketing, but only one marketing team will be required post-merger. The same will happen with servicing managers and other positions.
 - Being a national dealer network will give them access to national deals and enable the combined APE/AHG to outcompete local rivals with only a few sites.
 - while the merged entity won't explicitly get special treatment from manufacturers, they will get access to special deals for taking certain new car stock. They are expected to have better incentives built into their targets (i.e. incentives for meeting 120% of KPI that month which aren't offered to competing dealers of that brand). [REDACTED]
 - Ultimately, reduced costs and better access to manufacturer incentives will enable the merged entity to discount further than local rivals can.
 - The Retailer considers that the merger makes sense for APE from a business perspective – to control costs and make more money – but it will reduce competition.
14. The combined AP Eagers-AHG may discount even further if its cost base is reduced. It may go for volume over margin. Or it may choose to offer lower discounts if it has all the dealerships for a brand – the public don't know who owns the dealerships.

15. The combined APE/AHG will employ a large number of staff and will be able to influence the employment conditions of the industry. The opportunity for staff to move between Dealers for their better of conditions will be reduced.

Sale or acquisition of dealerships

16. The Retailer has concerns about the sale or acquisition of dealerships.
17. APE and AHG have been active acquirers of dealerships.
18. The size of APE and AHG may make other potential acquirers, such as private equity groups, think twice about acquiring dealers in Newcastle/the Hunter. [REDACTED]
19. [REDACTED]
20. [REDACTED]
21. [REDACTED]

Aggregation

22. The merged entity will control all dealerships of a number of brands in the Newcastle/Hunter region – 3/4 Kia, 3/3 Subaru, 3/3 Honda and most Mazda dealerships.
23. This will give the combined APE/AHG a greater ability to influence an OEM. The Dealers are typically represented by their appointed representative on “Dealer councils”. The merger probably won’t give a combined AP Eagers-AHG any greater ability to influence dealer councils. It will give it greater ability to speak to manufacturers directly
24. The combined AP Eagers and AHG’s dealerships will be within the same group but will continue to have different names – i.e. Klosters, Newcastle City – meaning that customers may think they are shopping around, but are really just dealing with the same company.
25. It’s important to be on a customer’s shopping list, but this might not be possible if the merger goes ahead.
26. A combined AP Eagers AHG may be able to offer a consistent deal on the sale of a vehicle for the customer who shops between their Dealerships. The consistent deal offer may influence the customer to believe that they are getting a competitive deal and remove the level of competition for the sale within the market.
27. Pricing is not necessarily clear. Customers don’t generally pay recommended retail price (RRP) and it’s difficult to say what the average level of discounting from RRP is. It’s more than just looking at the cost of the vehicle to the dealer and the cost to prepare the vehicle (including cleaning, mechanical detail), although these are important. There are a lot of other factors involved, such as looking at total drive-away price, changeover costs when a trade-in is involved, finance, insurance and other sales opportunities that a vehicle sale represent to a Dealer. No two customers or deals are the same. [REDACTED]
[REDACTED] It is important to show manufacturers the dealer is servicing

their PMA. There are factors in a deal that aren't monetary. [REDACTED]
[REDACTED]

28. The salesman and sales manager generally doesn't care about serving revenue or operating costs. [REDACTED]
[REDACTED]

29. The Retailer doesn't generally look to negotiate by phone. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

30. [REDACTED]
[REDACTED]

31. Some manufacturers allow advertising demonstrators online, but require that demonstrators have at least 2,000km and be 6 months old.

32. [REDACTED]
[REDACTED]

33. AP Eagers and AHG discount heavily in brands where they face competition. They discount heavily when a customer in another PMA goes to their dealers. They discount heavily to win customers from each other. They may discount less if they control a brand because they won't need to discount to get the customer.

34. If the Retailer pump sales into an AP Eagers or AHG PMA, they will 'slam' him when a customer from his PMA goes to one of their dealers. The Retailer believes they would take the same approach against each other now but won't need to post acquisition.

35. Ultimately, reduced costs and better access to manufacturer incentives will enable the merged entity to discount further than other, independent rivals can.

Intra-group competition

36. The Retailer is the dealer principal. There are sales managers in each dealership. They are remunerated separately on their results and compete. But they know it is the owner's money they are spending when they discount and do not compete too hard against each other.

Used vehicles

37. Some customers may not know what their used cars are worth.

38. The merged entity may be able to offer less for a trade in.

39. Trade-ins as part of a new vehicle transaction make used vehicles a more complicated equation when doing a deal. There are two contracts involved in making a new vehicle sale where there is a trade in— one contract for the trade in and one for the purchase. [REDACTED] of new car sales by the Retailer involve a trade in.

40. Trade in value is about understanding the current supply/demand situation and spotting an opportunity.

41. There is better revenue in selling used cars, but more risks. These risks have to be considered in offering a trade-in price.

42. Auction houses set the price on used cars (both the buy and sell side). Wholesalers work with auction houses.

43. There is only one auction house in Newcastle and its controlled by AHG.

44. 

Spare parts

45. Any aftermarket accessories added (such as tinting) don't offer much margin.

46. Most manufacturers list prices of accessories available through dealers online (such as through 'build a vehicle' functionality on manufacturer's websites).