

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] an original equipment manufacturer and importer

Date of submission: 17 May 2019

Draft public oral submissions

[REDACTED]

Proposed acquisition

3. No concerns about the proposed acquisition. There is no expected aggregated impact, either positively or negatively.
4. There is no disadvantage to the consumer in the merger because the merged entity will not have the ability to control the market. There are too many players.
5. The impacts of the proposed acquisition, if anywhere, will be on the manufacturers because of the consolidation of backroom power in the merged entity. If a manufacturer were to ask for a facility upgrade at sales locations, the merged entity might have more power to say no. The challenge is on that side rather than the customer side.
6. Industry consolidation produces advantages in terms of the substantial IT structures necessary to manage the customer base. Consolidation allows for closer integration of dealer and manufacturer systems, enabling quicker response times.
7. Consolidation also improves communications and management structures. Original equipment manufacturers (**OEMs**) also benefit from having less people to discuss marketing strategies with.

Consumer behaviour

8. Consumers are well informed and mobile.
9. Previously, people visited a dealership 5-6 times, but nowadays people might only visit a dealership 1-2 times because they are gathering information and comparing prices online.
10. Mobility is generally in local regions. However, consumers will travel further if the price difference is too great, especially at the budget end of the market.
11. Servicing is different, people won't travel from their prime marketing area (PMA) – but competition is also with independent operators, not just dealerships. By the time a car is 3 years old only [REDACTED] of customers are getting it serviced at a dealership, the alternatives are widely available.
12. Customers use online searches as leverage and will pressure a dealer to price match.
13. Reputation is very important for local dealerships, and some consumers will or won't use a local dealer based on their reputation. Customers will travel based on a dealer's reputation and service levels.
14. The market is overall very fluid, with very little loyalty at dealership levels as well as brand levels. Nobody produces a bad car anymore and consumers will look at multiple brands as part of their consideration set.
15. The market shifts in relation to new cars with perceived better technology, or to brands with the strongest offer.
16. There is a high migration pattern within the hatchback segment driven by design cues, price, and the relationship with dealers and service providers.

Platforms

- [REDACTED] Retail prices are expressed online as drive away prices, as mandated by law, but these will vary by state according to certain other costs. [REDACTED]
18. Dealers often use two online platforms – an official, branded site, and a separate, 'grey', unbranded dealer or group site. The branded site will be brand compliant. All prices are expressed as an RRP and a drive-away price.
 19. The 'grey' site is unbranded and not brand compliant. This site will often offer discounted prices for zero mileage demonstration models.
 20. There are also third-party sites, such as carsales.com.au, often selling used cars including zero mileage demonstration models, where dealers may advertise discounted prices, old stock or surplus cars.
 21. Consumers will research price by visiting all three categories of sites.
 22. Brokers, act as agents for buyers who don't want to deal with car dealers; the brokerage sites will inform customers on what kind of discounts can be achieved due to their relationships with dealers and volume discounts.

Profit margins

23. There is a standard bandwidth of gross profit margin in the industry across brands in a market segment. The bandwidth is between [REDACTED] % (at RRP) depending on the model and branding of the car. The lower the RRP of the car the lower the margin – so an entry level hatch may only have an [REDACTED] % margin, a luxury brand might have a [REDACTED] % margin.

24. Vehicles tend to be sold at a heavy discount off the RRP. No one sells at RRP, it is just a starting point. In nearly all instances, dealers are retaining only a █% gross margin because of competition, it is rare to retain full gross margin. A large portion of the gross margin is eaten up in sales costs.
25. New car retailing is an extremely narrow margin business. Dealers tend to break even, and a good dealer is making maybe █% net profit.
26. The new car market is over-supplied. There are generally more cars than buyers.
27. Generally █% of new vehicle transactions involve a trade-in.

Dealer competition

28. Some dealer groups operate 'campuses', on which there are franchises from a wide range of brands. Competition extends between brands on that one site, even if there is a common owner. The franchise agreements will require each dealership to meet specified KPIs to maintain competition. Online price transparency will limit the campus owner's ability to increase price across all the brands.
29. Some outer urban or regional dealerships can be more profitable than urban dealerships because of the lower cost structure (e.g. cheaper rents). In some cases, this can enable them to offer lower prices.
30. One of the biggest challenges for dealerships is that a well located dealership faces competition for the land and in highly populated inner city areas, dealership sites may be bought for property development.



32. The car industry is a cyclical business. Good dealers have capital structures to carry them through bad times, such as the present.

PMA's

33. There are a lot of legacy issues in the dealership business model and PMA distribution for all brands.
34. It is difficult for manufacturers to relocate or cancel franchises, which means the legacy issues continue.
35. Density of population plays a role in the number of PMA's allocated to a region. The market will be defined by the opportunity and the cost of servicing the opportunity, which includes the opportunity cost of losing sales. A competitor will likely benefit from the departure of a certain franchise. All franchises cluster because they all have the same data and have come to the same conclusions.
36. If a brand isn't represented in an area where its competitors are, it may lose sales. A physical presence is necessary because the brand needs to be in the 'consideration set' and if it's not physically available and serviceable, it will be taken off the consideration set.
37. The need to provide convenient servicing options plays a role in locating PMA's as people won't travel as far to get a car serviced as they will to buy a car. Consumers want servicing to be convenient.