

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

Document: Notes from call with Mitsubishi for preparation of proposed oral or written submission.

Date: 23 May 2019

Please provide a brief description of your business in Australia.

Mitsubishi Australia imports and distributes motor vehicles and parts. There are around 200 Mitsubishi dealerships around Australia

Who does Mitsubishi consider to be its closest competitors? Does Mitsubishi compete with luxury car brands?

Mitsubishi considers our closest competitors as other volume brands. Generally, Mitsubishi does not compete with luxury brands as these brands target different customer segments, although there is some overlap.

How significant are AP Eagers and AHG as competitors in the industry, and in relation to each other?

AP Eagers and AHG are the largest dealer groups in Australia and both groups have a large number of dealerships.

Are there other large dealership groups in Australia? How do they compare to the size of AP Eagers and AHG?

There are many smaller dealer groups however they would not be on the same scale as AHG and AP Eagers

To what extent are there advantages in being a large dealership group, or having a large dealership group as part of a manufacturer's dealer network?

The Australian motor vehicle industry is mature and there is not much natural growth of dealer groups.

To what extent are there advantages in being a large dealership group, or having a large dealership group as part of a manufacturer's dealer network?

Larger dealer groups are likely to have more opportunity to leverage economies of scale and growth opportunities.

It can be beneficial to the car manufacturers to deal with larger dealer groups as there can be one point of contact who can resolve any issues for multiple dealerships.

We understand that car manufacturers typically have KPIs for their dealers to meet. Can you please explain what Mitsubishi's are and how they work?

Similar to other car manufacturers, Mitsubishi has sale volume KPIs for its dealers to meet. These are in relation to overall volume target achievements and volumes within a prime marketing area. There are other KPIs for dealerships to meet such as customer satisfaction.

Sale volume KPIs are intended to increase Mitsubishi's market share against other manufacturers, rather than competition between dealerships.

Under the dealership agreement, dealerships have prime marketing areas. These are defined by Mitsubishi in relation to network engineering studies. They are sometimes reviewed if there is population growth and assess where the optimal locations are to maximise Mitsubishi's coverage around Australia without too much overlap between dealers.

KPI's do form a material clause of our dealership agreements and a failure to meet the KPI's can result in a termination of that dealership agreement.

How far do you consider consumers are generally willing to travel to purchase a new car? Does this vary for consumers in the Newcastle/Hunter Valley region of NSW? Do you consider that consumers would be willing to travel to either of the Central Coast or Sydney if discounts decreased in Newcastle?

There is probably a bell curve of how far consumers will be prepared to travel to buy a car; some may want to buy in their own town and others will be prepared to travel further. Generally, consumers are prepared to drive one hour to go to a dealership. Mitsubishi considers that Novocastrians would be likely to travel to the Central Coast, and some would be prepared to travel to Sydney but many others will not.

What factors may affect a consumer's willingness to travel outside of the Newcastle/Hunter Valley region of NSW?

Mitsubishi considers that consumers would only be likely to travel from Newcastle to Sydney if there was a significant value in doing so (such as a large price discount) or if they had another reason to travel there. However, the market is very competitive and as such, there may not be a large number of consumers in Newcastle travelling to Sydney at the moment.

Do you consider that the discounts offered to prospective new car buyers in the Newcastle/Hunter Valley region are likely to decrease as a result of AP Eagers acquiring the AHG dealerships in the region? Why/why not?

Mitsubishi does not consider that the proposed acquisition will affect competition in the Newcastle area as there is a high degree of inter-brand and intra-group competition.

Do you consider that the proposed acquisition increases the risk of "sales sharing" between dealerships in order to ensure all dealers within a group meet manufacturer KPIs? Why/why not?

Mitsubishi does not consider that the proposed acquisition will increase the likelihood of 'sales' sharing between dealerships as there is competition between dealers of the same

group, and dealer principals have an individual incentive to maximise their own sales. This type of behaviour would also be contrary to the dealership agreements.

Please explain your key considerations in both awarding and renewing dealership agreements (including where an existing dealer is selling its business)

If a dealer wants to sell its business it must apply to Mitsubishi will then assess each application on its merits and that the proposed buyer will meet Mitsubishi requirements. Mitsubishi has the discretion acting reasonably to either approve or deny.

Mitsubishi is generally presented with the prospective buyer and does not generally choose who the dealer will sell to.

Can you please explain how Mitsubishi's parts distribution works? Who would an independent service centre order parts through?

Mitsubishi wholesales authorised parts to its dealerships. It does not supply direct to independent trade customers. .

It is up to the dealer as to whether they will supply to third parties. Some dealerships do have large parts distribution businesses with specialised logistics, distribution and warehouses. The supply of parts is competitive between dealers to supply independent service centres.

Does Mitsubishi control the price parts are sold to independent service centres, or are dealers free to set their own prices?

Mitsubishi supplies parts to its dealerships at the same price, all dealers have access to reduced pricing based on method and frequency.

Does Mitsubishi offer capped price servicing for its new cars?

Mitsubishi offers capped price servicing on its new cars, which covers standard servicing.

For servicing and repairs not covered by capped price servicing, does Mitsubishi control the price dealers charge, or are dealers free to set their own prices?

Mitsubishi provides schedules of activities and parts in its scheduled service.

For those services outside of the capped price service, the dealerships can set their price based on guidelines provided by MMAL based on activity and parts.