
From: David Clayton [REDACTED]
Sent: Friday, 28 October 2022 8:25 PM
To: Armaguard-Prosegur Merger
Cc: Wilson, Louisa; Maya vanden Driesen; Christian Bauer
Subject: Wesfarmers Ltd: Armaguard/Prosegur - submission

General

1. Please provide a brief description of your business or organisation.

Wesfarmers owns a diverse range of businesses operating in the following sectors:

- home improvement and outdoor living;
- apparel and general merchandise;
- office supplies;
- health, beauty and wellbeing; and
- Industrials with businesses including the manufacture and distribution of chemicals, energy and fertilisers, and general industrial and safety products.

The most significant impact of the proposed merger would be experienced by Wesfarmers' retail divisions, including Bunnings, Officeworks and Priceline Pharmacy.

2. Please outline the reasons for your interest in the Proposed Transaction, including any commercial relationships with Armaguard, Prosegur or any of their subsidiaries. In doing so please identify the specific service(s) you acquire from or supply to Armaguard and/or Prosegur, if any.

Both Armaguard and Prosegur currently provide CIT services to Wesfarmers' businesses.

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CIT services

3. Please provide any views on the market shares and competitive positioning of Armaguard, Prosegur and their competitors in the following areas of competition:

- a) the supply of integrated end-to-end wholesale and retail CIT services;**
- b) the supply of CIT services to retail customers who require a full-service solution of cash transport, processing and administration; and**
- c) the supply of cash-transport-only services to retail customers who only require cash transport between their location(s) and, for example, a bank branch.**

Armaguard and Prosegur offer the only national uniformed service with the best infrastructure and systems to appropriately meet the end-to-end needs of larger businesses, hence their large market share.

Changes in banking practices regarding the handling of cash (for example, discontinuance of night safe services and acceptance of “over- the- counter” coin deposits) makes it more efficient for our businesses to use CIT services offered by Armaguard and Prosegur.

In that context, Wesfarmers has following concerns with the proposed merger:

1. Armaguard and Prosegur are direct competitors in the provision of CIT services. The proposed merger will have the effect of reducing the number of integrated national suppliers of CIT services from 2 down to 1.
2. If the merger proceeds, it is likely to have a very significant impact on the competitive dynamics in the market for CIT services. The merged firm will have significantly more bargaining power in negotiations with users of CIT services. This has the potential to affect both pricing and service levels. Indeed, it is plausible that the merged entity will increase its rates in the future in the knowledge that users of CIT services have no viable alternative option for supply of these services (especially for businesses with a national and regional presence). In short, the level of competition in the supply of CIT services is likely to be materially diminished as a result of the merger.
3. In the absence of meaningful competitive constraints, a merged entity will have little incentive to offer improved service or to develop or adopt technology enhancements, innovations and analytics (for example, to assist with fraud detection and routing efficiencies). In other words, there will be no pressure to maintain service levels, improve or innovate in the absence of a major competitor.
4. ***Please identify and describe other businesses that compete with Armaguard and/or Prosegur in the supply of CIT services. In your response, please identify the specific CIT service in which these competitors compete and discuss how strong these competitors are.***

Wesfarmers is not in a position to comment in detail on this point.



5. ***What factors (scope, quality, geographic coverage/networks, cost of service) are important to customers of CIT services? Why are those factors important? Do you consider there to be anything unique about the CIT services provided by Armaguard and/or Prosegur?***

As noted above, Armaguard and Prosegur offer the only national uniformed service with the best infrastructure and systems to appropriately meet the end-to-end needs of larger businesses, hence their large market share.

6. ***Do you consider that other companies would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its CIT services? Why? Which companies would provide this competitive constraint?***

Wesfarmers does not believe that the other companies are currently in a position to provide this competitive constraint.

7. ***Would a new entrant, or existing business seeking to expand face any significant barriers in seeking to establish a CIT service? Do you consider that the possibilities noted by Armaguard and Prosegur, including the major banks sponsoring new entry and the ability of retail customers to insource cash delivery, are viable options?***

In theory a new entrant, or an existing Australian business seeking to expand (or an overseas business seeking to enter the Australian market), would be able to establish a CIT service of scale that could compete effectively with a merged Armaguard/Prosegur entity. But that would likely involve a significant investment. For the same reasons as are identified in the merger authorisation application (i.e. the decline in the use of cash, and declining demand and profitability for businesses involved in the provision of CIT services), it would be difficult to develop a viable business case to undertake this type of investment.

Wesfarmers believes a scenario involving the incremental expansion of an existing business is more likely than a new entrant. Wesfarmers doesn't foresee new entrants into this market (particularly at a national level) as it is clearly a shrinking market.

Wesfarmers does not believe that it is viable, financially or otherwise, for its retail businesses to insource cash delivery.

8. ***Do you consider any other factors would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its CIT services? For example:***
- a) ***Do you consider customers have significant bargaining power in the negotiation and procurement of CIT services? You may wish to consider factors such as the contract tendering process (including details of the process and results of any recent tender processes) and how easy or difficult it is for customers to switch supplier.***
 - b) ***To what extent does the price of CIT services influence retailers' decisions about whether to offer cash as a payment option (i.e. do you consider that, as Armaguard and Prosegur submit, they would need to keep prices of CIT services sufficiently low to arrest the decline in cash usage by remaining a cost competitive payment method for retailers to offer in comparison to card and digital payment methods)?***
 - c) ***Do you consider, as Armaguard and Prosegur submit, that if they were to significantly increase prices for CIT services the RBA could exercise powers to regulate the cash distribution system and that the threat of such regulatory intervention would constrain them?***

Currently, users of CIT services do have some bargaining power in the negotiation and procurement of CIT services. However, the level of bargaining power will be significantly diminished if the merger proceeds.

As to question 8(b), Wesfarmers' view is that the payment method is largely determined by changing retail customer preferences rather than competitive dynamics associated with the price of CIT services. Retail customers are offered a range of payment options for their convenience, and in most instances are free to choose which one they wish to use.

With regard to question 8(c), Wesfarmers does not believe that regulatory intervention (or the threat of regulatory intervention) represents a realistic solution.

9. ***Do you consider, as Armaguard and Prosegur submit, the current demand for cash is not sufficient to sustain two major national suppliers of CIT services? Please provide details including examples where possible.***

Wesfarmers is not in a position to comment in detail on this point.

Wesfarmers notes the views expressed in the application that the existing businesses are challenged as a result of changes in market dynamics, including the decline in the use of cash as a method of payment. Wesfarmers acknowledges that these are legitimate issues that go to the viability of these businesses in their current form. However, the conclusion that is reached is that the Australian market can only support one national provider of CIT services. Wesfarmers believes this proposition needs to be carefully interrogated. For example, there may be opportunities for the applicants to restructure their businesses (this could involve changes in the nature or scale of their operations, innovative use of new technologies and partnering with

customers on such opportunities, for example in the use of routing software) so that they remain financially viable without the need for a merger.

Non-CIT services

10. ***Please provide any views on the market shares and competitive positioning of Armaguard, Prosegur and their competitors in the following areas of competition:***
 - a) ***the supply of ATM services (including cash withdrawal facilities, deployment services to merchants and access arrangements to financial institutions);***
 - b) ***the supply of ATM maintenance services; and***
 - c) ***the supply of valuable cargo transportation services.***
11. ***To what extent do Armaguard and Prosegur compete in the areas of competition listed above in question 10? Do you consider Armaguard and Prosegur to be particularly close competitors? For example, do they compete for the same customers?***
12. ***Please identify and describe other businesses that compete with Armaguard or Prosegur in the supply of these non-CIT services. In your response, please identify the specific non-CIT service in which these competitors compete and discuss how strong these competitors are.***
13. ***Do you consider that other companies would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its non-CIT services? Why? Which companies or factors would provide this constraint?***
14. ***Do you consider any other factors would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its non-CIT services? Why and what is the likelihood of each of those factors occurring?***

Wesfarmers is not in a position to comment in relation to the provision of Non-CIT services (Questions 10-14).

Public benefits

15. ***Do you consider, as Armaguard and Prosegur submit, that if one of them was to cease supplying CIT services this would cause major interruption to the operation of the cash distribution system and associated costs?***

Wesfarmers is not in a position to comment on this point. The degree of disruption would depend upon the circumstances that existed at the time.

16. ***In the event of one party ceasing to supply CIT services, what would be the anticipated timeframe for transitioning across to another provider? What, if any, disruption do you consider that this transition would cause to your business?***

Wesfarmers' assumption is that it would take at least 6-12 months to complete an orderly transition to a new service provider. The degree of disruption would depend upon the circumstances that existed at the time.

17. ***Do you consider, as Armaguard and Prosegur submit, that the Proposed Transaction will generate efficiencies in the provision of CIT services by them and/or ensure ongoing high levels of customer service?***

Wesfarmers is not in a position to comment in detail on this point. On the face of it, it appears plausible that the proposed merger will generate efficiencies, e.g. by reducing costs associated with duplicated capacity. The question, however, is whether (in the absence of meaningful competitive constraints) users of CIT services will enjoy any benefit arising from those efficiencies. There appears to be little incentive for the combined entity

to pass on the benefit of those efficiencies to users of CIT services in the form of more competitive pricing or improvements in service levels.

18. To what extent would acquirers of CIT and non-CIT services, and/or the community more broadly, benefit from Armaguard and Prosegur combining their businesses?

As noted above, there appears to be little incentive for the combined entity to pass on benefits to users of CIT and non-CIT services. Wesfarmers' view is that it is unlikely that users of CIT and non-CIT services will enjoy any significant benefits as a result of the merger.

19. To what extent do you consider that any other public benefits, including the ones listed in Attachment A, are likely to result from the Proposed Transaction?

Wesfarmers does not have anything to add on this point.

20. How significant do you consider any public benefits likely to arise from Proposed Transaction to be in terms of likely size/magnitude (for example, on a scale from very small, to significant)? Where relevant, is the public benefit likely to be an enduring benefit or a one-off benefit?

Wesfarmers believes the public benefits arising from the proposed transaction are overstated. It is likely that the majority of the benefits will accrue to the merged entity.

Public detriments

21. In addition to any competitive detriment that you may have identified in your responses to questions 3 to 14, please outline whether there are any other effects of the Proposed Transaction that you consider may give rise to a public detriment.

Please refer to the comments above in response to question 3. Wesfarmers does not have anything further to add on this point.

Other information or issues

22. Please provide any additional information or comments, or identify other competition or public benefit issues, that you consider relevant to the ACCC's consideration of the Proposed Transaction.

Wesfarmers does not have anything further to add on this point.

Your sincerely,

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