



Statement of Issues

19 October 2012

Carsales.com Ltd – proposed acquisition of assets associated with Trading Post from Telstra Corporation Ltd

Introduction

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (**ACCC**) on the proposed acquisition by Carsales.com Limited (**Carsales**) of assets associated with the Trading Post business (**Trading Post**) from Telstra Corporation Limited (**Telstra**) (**proposed acquisition**).
2. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC's Merger Review Process Guidelines (available on the ACCC's website at www.accc.gov.au/processguidelines) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by 2 November 2012 and anticipates making a final decision on 29 November 2012. However, the anticipated timeline can change in line with the Merger Review Process Guidelines. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at www.accc.gov.au/mergersregister.
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

Background

5. On 30 August 2012, the ACCC commenced its review of the proposed acquisition.

The parties

The Acquirer: Carsales.com Limited

6. Carsales is an Australian publicly listed company. It listed on the ASX in 2009.
7. Carsales is the largest online automotive classifieds business in Australia, through its carsales.com.au and carpoint.com.au sites, other automotive-related sites and other category specific sites such as motorbikes, trucks and marine classifieds sites (see Table 1 below and market shares on pages 12 and 13 for more detail).
8. Carsales also operates quicksales.com.au (**Quicksales**), which provides general classified advertising for a wide range of product categories, including automotive, motorcycles, boats, trucks, farm, machinery and many others. Quicksales was launched by Carsales in 2003 to provide a general classifieds advertising site.

Table 1: Online advertising sites operated by Carsales

Category	Website
Automotive	carsales.com.au
	carpoint.com.au
	discountnewcars.com.au
	discountusedcars.com.au
	prestigenewcars.com.au
	greencarsales.com.au
	motoring.com.au
Marine	boatsales.com.au
	boatpoint.com.au
Motorbikes	bikesales.com.au
	bikepoint.com.au
Trucks	trucksales.com.au
Machinery	farmmachinerysales.com.au
	constructionsales.com.au
	plantmachinerysales.com.au
Real estate	homesales.com.au
Caravans	caravancampingsales.com.au
Multiple categories (general classifieds)	quicksales.com.au

9. Carsales also sells display or banner advertising space to third parties, including car manufacturers, car insurers and car financiers. Display or banner advertisements (as distinct from classified advertising) are special advertisements (sometimes interactive) appearing in boxes or other shapes on a web page to promote a product or service of a third party (e.g. advertisement for car insurance).
10. In addition to online advertising, Carsales is vertically integrated and provides online inventory management and data services to automotive dealers through its DataMotive (**Datamotive**) division, which includes datamotive.com.au and livemarket.com.au. Carsales also provides automotive specification and valuation information services to customers through its ownership of redbook.com.au.
11. For the financial year ending 30 June 2012, Carsales' operating revenue totalled \$184.2 million from four sources:
 - the sale of classified advertisements to dealers (45%);
 - the sale of display or banner advertising (24%);
 - the sale of classified advertisements to private advertisers (18%); and
 - the provision of data and information technology services to dealers (13%).¹
12. Carsales does not provide print classifieds.

The Target: Trading Post

13. The Trading Post provides online classified advertising at its website tradingpost.com.au, covering a wide range of categories, including cars, motorbikes, caravans, trailers, boats, wheels and parts, backyard, pets, sport and fun, farm, home and DIY.
14. Trading Post is one of the three largest competitors to Carsales in online automotive classified advertising, along with Carsguide and Drive (see market shares on pages 12 and 13 for more detail).
15. The Trading Post business has a long history in Australia, having been established in 1966 as a weekly print classifieds publication. It has developed a strong and well known brand in Australia.
16. Telstra acquired the Trading Post in 2004 and the print version of the Trading Post ceased production in 2009.
17. Telstra also operates the Car Showroom website (carshowroom.com.au) which is primarily a car review website and is not included in the proposed acquisition. The Car Showroom website also advertises new cars with links directing customers to the Trading Post site.

¹ Source: Carsales ASX reports.

Other industry participants

Carsguide

18. Carsguide operates an automotive advertising website (carsguide.com.au) which provides automotive advertisements, both from dealers and private car sellers.
19. Carsguide.com.au is a joint venture between News Limited (**News**) and a syndicate of 35 Australian automotive dealer groups, including Automotive Holdings Group Limited, A.P. Eagers and the Trivett Group.
20. As noted at paragraph 14, Carsguide is one of the three largest competitors to Carsales in online automotive classified advertising.
21. In addition to advertisements placed directly on the Carsguide website by advertisers, News also uploads car advertisements from its newspaper classifieds and places them online on carsguide.com.au.

Drive

22. Fairfax Media (**Fairfax**) owns and operates the Drive brand, including the website drive.com.au. This site provides online automotive classified advertising listings for new and used vehicles as well as car reviews and editorial-related content.
23. As noted at paragraph 14, Drive is one of the three largest competitors to Carsales in online automotive classified advertising.
24. Fairfax also provides print classifieds featuring the Drive brand, including in The Age and The Sydney Morning Herald, and uploads print classifieds onto its Drive website.

CarAdvice

25. In 2010, CarAdvice.com.au Pty Ltd (**Car Advice**) acquired the CarBuddy website (carbuddy.com.au) from Jumbuck Entertainment. This website provides online automotive classified advertising for used cars. Car Advice (through CarBuddy) has a much smaller share of online automotive classified advertising than any of the four competitors listed above (see market share in Table 2 on page 12 for more detail).
26. Car Advice also provides an automotive editorial website (CarAdvice.com.au) that provides information to new car buyers and generates revenue from display advertising.

eBay/Gumtree

27. eBay operates in Australia through its website ebay.com.au. The eBay website offers listings to sellers across a wide range of categories and in various formats, including a fixed period auction, a fixed price sale ('buy it now') or a 'best offer' format.
28. eBay also provides a motoring category, which includes listings for cars (both new and used), parts and accessories, motorcycles, collector cars, boats, caravans and other.
29. eBay acquired Gumtree (gumtree.com.au), another well known multiple category advertising site, in 2005. Gumtree offers free online classified advertisements (in addition to options for upgraded paid advertisements) and has a growing

presence in online automotive classified advertising (see market share in Table 3 on page 13 for more detail).

Other players

30. There are a large number of small players in the online classifieds industry. While some of these have been successful in attracting readers and advertisers interested in particular niche or specialty segments of the automotive industry and/or particular geographic areas, the ACCC's preliminary assessment based upon its market inquiries to date is that none of these small players has achieved significant market penetration nor the ability to impose a strong competitive constraint upon Carsales and Trading Post.

The transaction

31. Under the proposed acquisition, Carsales will licence the Trading Post brand and operate the tradingpost.com.au website for an initial period. In addition, customer lists and contracts will be transferred to Carsales. Carsales will have the ability to acquire the Trading Post brand and related assets at the end of the licence period (3 years or less).
32. The Trading Post and Quicksales sites will have aggregated inventories. However, Carsales' stated intention is that the Trading Post inventory (powered by Quicksales) will not be aggregated to the automotive-specific websites of Carsales, but will rather be carried on the Trading Post and Quicksales sites.
33. Given the significance of the assets proposed to be acquired as part of the initial transaction, the ACCC's review of the proposed acquisition is being conducted as if it were an outright acquisition of the Trading Post business.

Market inquiries

34. On 30 August 2012, the ACCC commenced market inquiries regarding the proposed acquisition. A range of interested parties provided responses, including automotive dealers, private advertisers, providers of related services to dealers and advertisers, and operators of websites (mainly automotive-related editorial and/or classified advertising websites).

Industry Background

35. Online classified advertising has grown significantly in the last 10 years. In 2011-2012, online classified revenue grew by an estimated 11% to a total of \$643 million.²
36. In relation to the automotive industry, which has been the subject of the vast majority of submissions from interested parties to the ACCC and is the key focus of the ACCC's inquiries, the main national providers of online classified advertising for automobiles in Australia are Carsales, Trading Post, Carsguide, Drive and eBay/Gumtree.
37. There are two distinct customer groups that use online classified advertising:
 - private advertisers (e.g. individuals wanting to sell their own item); and

² PricewaterhouseCoopers, *IAB Online Advertising Expenditure Report*, 13 August 2012, p 23. The figure of \$643 million is for all online classifieds (not just automotive) and does not include revenues from display advertising or search and directories advertising.

- commercial advertisers (e.g. car dealers).
38. Online providers generally tailor their offers to meet the different needs of these groups and to optimise the return earned from each group. In relation to pricing mechanisms, most of the major online providers charge for listings.
 39. Carsales charges the majority of dealers a base subscription fee and a 'pay per lead' fee. Under this model, dealers are charged a monthly fee which allows them to advertise and also a lead fee when a customer makes an online inquiry regarding a dealer listed vehicle. Carsales passes leads or enquiries made by customers on to the dealer. Under this model, dealers are not able to display contact details for their dealership on the Carsales site.
 40. Private advertisers using the Carsales website are charged an upfront fee to list their car, and can pay for a basic package (\$60) or a premium package (\$110). Unlike dealers, private advertisers do not pay for leads and are able to provide contact details for potential buyers to contact them.
 41. Trading Post's pricing mechanism for dealers involves a subscription model that allows a specified number of car listings for a fixed monthly fee. Dealers using Trading Post are able to display their contact details and other relevant information to potential customers.
 42. Other major online providers also mostly operate a subscription model for dealers.
 43. Trading Post charges an upfront fee to private advertisers for car listings and offers basic (\$50) or more prominent premium (\$70) advertisements. For listings under certain categories, including motorbikes, boats, go karts and machinery, the basic cost is \$40. The basic cost to list trailers, wheels and car parts, household items or products in other categories is \$20. Items priced under \$500 can be advertised free of charge, subject to certain conditions.
 44. Some online providers offer basic free listings and charge a premium for additional listing features (such as more photos or a higher search ranking to give added prominence to the premium advertisement). This business model, which combines the ability to list advertisements for free and charge a premium for additional features, is generally referred to in the industry as a 'freemium' model.
 45. For instance, Quicksales and Gumtree both offer free general classifieds to advertisers for basic listings with the option to pay a fee for advertisement upgrades (e.g. to display classifieds near the top of search results).
 46. Some other online providers charge a fee or commission for advertisement listings (either upfront and/or when a product sells). For example, eBay allows private advertisers to list advertisements for free (if certain conditions are met) or for a relatively low fee, and then charges a commission to advertisers when a sale is completed.

With/without test

47. Section 50 of the Act prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment post-acquisition if the acquisition proceeds (the "with" position) to the likely future competitive environment if the acquisition does not proceed (the

“without” position) to determine whether the proposed acquisition is likely to substantially lessen competition in any relevant market.

48. If the proposed acquisition did not proceed, Telstra would have the options of continuing to operate the business in some form, selling the business to another buyer, or shutting down the business.
49. The ACCC’s preliminary view is that without the proposed acquisition, the Trading Post would continue to operate as a separate business not owned by Carsales (i.e. owned by Telstra or another buyer).
50. The Trading Post has a strong brand presence and its assets are highly regarded in the industry. Although it has been suggested by some parties that the Trading Post is not as strong a business as it has been in the past and that its recent financial performance has been below expectations, market inquiries suggest the Trading Post is an iconic brand and its assets would hold some value to other possible buyers.
51. Given the attractiveness of the Trading Post business and its strong brand, the ACCC does not consider it likely that its assets would exit the market. It is more likely that the Trading Post business would continue to operate as a competitor in the relevant markets in the foreseeable future.

The ACCC invites market participants to comment on what is likely to occur in the event that the proposed acquisition does not proceed. In particular, the ACCC is interested in whether the Trading Post assets would continue to pose a competitive constraint in the foreseeable future under Telstra’s ownership, or whether the brand and/or business are likely to be attractive to another buyer who could use it to compete with Carsales.

Areas of overlap

52. The ACCC considers that the following areas of key overlap exist between the parties to the proposed acquisition:
 - the supply of online automotive classifieds;
 - the supply of online general classified advertising; and
 - the supply of automotive-related online display or banner advertising, including in relation to car manufacturers, car insurers and car financiers.

Market definition

Online classified advertising – automotive

53. Markets for online classified advertising are two-sided, in that online classified sites serve two distinct customer groups – advertisers and potential product buyers. Other things equal, each of these groups will value a site more highly the more the other group uses it.
54. On one side of the market, online classified providers supply commercial customers (e.g. car dealers) and private advertisers (e.g. someone wanting to sell their own car) with advertising space and an audience of possible buyers.
55. On the other side of the market, online providers supply consumers (e.g. car seekers) with the opportunity to search and view online classified advertisements at no charge.

56. Online classified providers generate most of their revenue through some combination of fees paid by classified advertisers and fees paid for display advertising (dealt with as a separate but related market below).

Substitutability between print and online classified advertising

57. Market information suggests that online classified advertising is an increasingly important media platform, growing largely at the expense of print classifieds.
58. With a growing online audience, circulation and readership of print classifieds has been in decline. More people are using the internet to search for, buy and sell products. As a result of declining volumes of print classifieds, the Trading Post became an exclusively online and mobile platform in October 2009 after its print publication ceased to be produced.
59. With the increased use of computers, tablets, smart phones and other internet enabled devices, audiences are increasingly able to view online classifieds in ways that were not possible before. Compared to print advertising, online classified advertising has a number of advantages. These include a high level of convenience, functionality and ease of use (e.g. the ability to search by different criteria and view photos of products) and currency of content.
60. In relation to advertisers, the choice that advertisers make as to which online site(s) to use can be influenced by a range of factors, including price, quality and content. A particularly important factor is the audience, since advertisers are attracted to sites that attract large and relevant audiences.
61. Although some advertisers may use a range of media platforms (which for some may include print publications), most parties who place online classified advertisements (especially car dealers and private advertisers wishing to sell a car) use it as their main form of advertising.
62. Some advertisers use multiple media platforms to gain maximum exposure for their listings. This may reflect the complementary nature of different advertising methods.
63. The ACCC's preliminary view is that any small increase in the price or decrease in the quality of online classified advertising is unlikely to induce a sufficient number of advertisers (both commercial advertisers and private advertisers) or consumers to switch to print classifieds or other forms of advertising so as to make the change unprofitable.³ This suggests that print advertising is not part of the relevant market, a finding which is consistent with the views expressed by most market participants during the ACCC's review, as well as past decisions by the ACCC, such as those discussed at paragraphs 73-74 below.

Substitutability between categories of online classified advertising

64. Within online classified advertising, there are broadly two types of sites:
- single product category or themed sites that provide a focus on particular products or services (e.g. automotive, employment or real estate); and

³ The so-called 'SSNIP test' or 'Small but Significant Non-transitory Increase in Price test' is a tool often used in competition law to assist in determining whether a product is a sufficiently close substitute for another product to warrant inclusion in the relevant market for the purpose of assessing the competition effects of a merger.

- multiple category sites that offer a wide range of product categories (e.g. automotive, farm machinery, pets, sporting goods, etc).
65. The ACCC's market inquiries suggest that multiple category sites can compete closely with single category sites (and vice versa) in cases where both online providers attract listings of the same content (e.g. automotive classifieds) and they are similar in scale and scope of operations.
 66. For example, Trading Post, which offers automotive classifieds as well as many other product categories, competes closely with the automotive specific website carsales.com.au to attract listings. Accordingly, online classified sites that provide the same type of advertising content are likely to compete in the same market.
 67. From a supply-side substitutability perspective, market inquiries suggest that providers of online classified advertising services in other fields, such as employment classified advertising or real estate classified advertising, could not successfully expand or switch into automotive classifieds and compete closely with Carsales or the Trading Post without significant new investment (nor could they switch into general classifieds and compete closely with the Quicksales and Trading Post sites without significant new investment).
 68. While some of the underlying technology may be similar between online classified advertising platforms for different categories, the degree of supply-side substitution is limited due to factors such as branding, sunk costs and network effects.
 69. In particular, significant investment would be required in marketing and repositioning brand to create strong consumer and advertiser awareness, as well as to attract a large audience of potential buyers and a large inventory of products for sale.
 70. Given the specific nature of automotive advertising and the limited supply and demand side substitution between categories, the ACCC's preliminary view is that online automotive classified advertising is distinct from other classified advertising and that this should be reflected in defining the relevant markets for the purposes of analysing the proposed acquisition.

Dealers and private advertisers

71. The ACCC notes that dealers and private advertisers comprise distinct groups of customers that are readily identifiable. Providers of online automotive classified advertising services distinguish between these two groups and offer them different price structures that are not made available to the other group.
72. It may therefore be argued that the two groups constitute separate markets. However, this distinction may ultimately not be decisive; the providers who compete to provide online automotive classified advertising to both groups are essentially the same parties, and to the extent that one of these groups is harmed by any lessening of competition arising from the proposed acquisition, it is likely that the other group will also be harmed.

Previous matters

73. In previous matters, such as the assessment of the proposed acquisition by Carsales of certain online assets of ACP Magazines Limited in 2005, the ACCC considered the effects of that transaction in the national market for the supply of online automotive classified advertising.

74. The Carsales acquisition of Red Book in 2009 was also assessed in the context of a national market for the supply of online automotive classified advertisements.

Geographic dimension

75. While there are exceptions, consumers generally do not travel very long distances to purchase large items or items that need to be inspected at or before the transaction, such as automobiles, because of the additional transaction costs and time involved. This is in contrast to small items which can be bought online and posted at low cost; consumers buying these products are generally less sensitive to location.
76. However, on the supply side, while there are some online providers that operate in, or are strongest in, particular states, the major online automotive classified providers, including Carsales and Trading Post, operate nationally and allow listing searches in any major location in Australia.
77. Taking into account that market definition is purposive and should highlight the area of competition relevant to analysis of the present transaction, the ACCC's preliminary view is that the geographic dimension of this market is national.

Online classified advertising – general

78. In addition to automotive classifieds and display advertising (discussed below), the other main area of overlap between Trading Post and Carsales (through its Quicksales website) is in online general classified advertising⁴.
79. Much of the analysis above (in relation to automotive) is also relevant to general classifieds: in particular, the distinction between print and online advertising, the importance of categories and the discussion of geographic market. An important difference is that general classifieds websites bring together a number of different categories, in part because this may help to provide a critical mass of inventory and audience necessary to serve both sides of the relevant market.
80. Given Quicksales' relatively low share of general classified advertising and the constraint imposed by competitors such as eBay and Gumtree, the ACCC does not consider that any competition concerns arise in this market from the proposed acquisition.
81. Accordingly, for the purposes of this analysis it is sufficient to define a market for online general classified advertising, encompassing a range of categories broadly similar to those set out at paragraph 13. The ACCC considers it unnecessary to conclusively define the precise boundaries of this product market, since this would not alter its view that no substantial lessening of competition is likely in this market.

⁴ For the purposes of this discussion, no distinction is made between general classified advertising and general merchandise sold in online auctions or 'buy it now' sales. While such distinctions may be relevant to analysis of other transactions, given the lack of competition concern in relation to general merchandise and general classifieds, the distinction is not critical to the analysis in this case.

Automotive Display advertising

82. Most providers of automotive themed websites, including automotive classified sites but also editorial sites, sell display or banner advertising. The main acquirers of this advertising space are car manufacturers, car insurers and car financiers.
83. Although such advertisers use a variety of media and websites to advertise their products and enhance their brands, for a given audience size, acquirers of banner advertising space typically prefer to advertise on online sites whose audiences are most likely to be interested in their products.
84. By advertising on automotive-related websites, car manufacturers and others are able to target consumers that are more likely to be responsive to their advertisements. It is unlikely that these parties would consider advertising in an unrelated online platform to be a close substitute for the products or services they are trying to sell.
85. Similarly, it would be difficult for suppliers of advertising space in an unrelated field to switch their operations easily and build a strong automotive-related brand which would readily attract automotive-related advertisers.
86. For these reasons, the ACCC has considered a market for the supply of online automotive display advertising. Given the operations of Carsales, Trading Post and their main competitors in this market, it is likely to be national in geographic scope.

Conclusion on market definition

87. On the basis of its inquiries to date, the ACCC's preliminary view is that the following markets are relevant to the proposed acquisition:
 - the national market for the supply of online automotive classified advertising;
 - the national market for the supply of online general classified advertising; and
 - the national market for supply of online automotive display advertising.

The ACCC invites comments from market participants on its proposed definition of the relevant markets.

Statement of issues

88. For the purposes of this Statement of Issues, the issues in this matter are divided into two categories, 'issues of concern' and 'issues unlikely to pose concerns'.

Issues of concern

Competition for the supply of online automotive classified advertising

89. The ACCC's preliminary view is that the proposed acquisition is likely to result in a substantial lessening of competition in the national market for the supply of online automotive classified advertising.
90. As noted earlier, Carsales operates a number of automotive related advertising sites and is the clear market leader.

91. There are many ways to measure market shares for online automotive classifieds in Australia, including inventory, audience (unique browsers) and total time on site.⁵ The use of different metrics will provide different results, and each has strengths and weaknesses.
92. For example, in relation to inventory, dealers often list on multiple sites and consequently there can be double counting of inventory. Similarly, in relation to unique browsers, consumers may visit the same classified site from different internet-enabled devices, also potentially resulting in double counting.
93. However, based on Nielsen Market Intelligence data for online traffic metrics (which are generally the industry-accepted data measures), Carsales is the largest online automotive classified advertiser in Australia and a clear market leader (see Table 2).

Table 2: Online traffic metrics

	Unique Browsers ⁶	User Sessions ⁷	Page Impressions ⁸	Total Time on Site ⁹
Carsales¹⁰	52%	54%	84%	76%
Trading Post	11%	11%	6%	11%
Drive	20%	18%	5%	6%
Carsguide	10%	9%	4%	3%
Car Advice	7%	8%	1%	4%

Source: Nielsen Online, Market Intelligence, Automotive Information Report, June 2012.

94. In considering these figures it is necessary to take into account the fact that some suppliers of online automotive advertising are excluded from this measurement for technical reasons; some do not “tag” their inventory for inclusion in such surveys while others, such as Gumtree, do not “tag” their inventory in a way that allows traffic measures to be allocated to specific categories of inventory such as automotive. It should also be noted that the figures for Trading Post include not only browsers viewing cars, but also bikes, caravans and boats.
95. Subject to these caveats, Table 2 above shows that close to 80 percent of all time spent looking at automotive classifieds sites is on a Carsales owned site. The second, third and fourth strongest players are Trading Post, Carsguide and Drive, but the order in which they are ranked depends upon which metric is used.

⁵ Other metrics such as sales conversion ratios from leads or ad visits may be a useful indicator of market shares and to some extent competitive strength. However, precise data in a comparable form between companies does not appear to be readily available.

⁶ The number of individuals that visit a site in a day. This is measured based on the number of visits to the site from unique web browsers (based on their cookie ID).

⁷ The total number of times a site is accessed during the reported period. When used in conjunction with the unique browsers statistic, this gives an indication of how often visitors return to a website.

⁸ The number of times pages on the site are loaded during the reported period. For example, if a visitor to the site looks at six pages, this will count as six page impressions. Page impressions give an indication of how compelling users find the content of the site as well as the number of visitors.

⁹ The total amount of time users spent accessing the site over the reported period.

¹⁰ The metrics provided in relation to Carsales are for its carsales.com.au and carpoint.com.au sites; they do not include its other sites, and accordingly may tend to understate the share of Carsales.

96. The ACCC notes that Carsales uses online traffic metrics when it reports its own position in its ASX market updates, but Carsales has submitted that this measure has shortcomings when seeking to analyse market position.
97. Carsales submits that it is also appropriate to consider inventory size as a measure of market position. Carsales also has the largest share of inventory listings, both for dealers and private car advertisers (see Table 3).

Table 3: Online automotive classified listings with the main providers by private advertisers and dealers

	Private		Dealer		Total	
	Listings	Share	Listings	Share	Listings	Share
Carsales	73,550	40%	149,349	37%	222,899	38%
Trading Post	13,323	7%	48,524	12%	61,847	11%
Carsguide	28,117	15%	123,220	31%	151,337	26%
Drive	3,735	2%	58,803	15%	62,538	11%
Gumtree	61,541	33%	8,571	2%	70,112	12%
eBay	6,143	3%	11,051	3%	17,194	3%
Total	186,409	100%	399,518	100%	585,927	100%

Source: Carsales estimates based upon a count of listings on each website at a point of time in August 2012.

98. If the proposed acquisition proceeds, it would significantly increase Carsales' already strong share of the market. As measured by audience and inventory, it is estimated that the market share of Carsales would increase by approximately 10-11 percentage points.
99. The ACCC notes that a drawback of measuring market shares by inventory is that it takes no account of the value of the advertisement to the advertiser; for example, Gumtree has a high level of inventory, comprised mainly of free advertisements of automobiles which may also be advertised on other sites.¹¹
100. It is also the case that some websites, including Drive and Carsguide, engage in arrangements whereby advertisements placed on one website are also placed on another website. This increases the inventory figures for those sites involved in such arrangements such that they do not reflect the number of advertisements placed with (or sold by) the owner of the website.
101. A further reason why these figures should be interpreted with caution is that different websites use different definitions of 'automotive'; for example, some include items such as caravans and car parts, while others do not.
102. The ACCC notes that another measure of market share or position is revenue. While there are no universally agreed revenue figures available in this market, it is clear from the estimates provided to the ACCC during its inquiries that on this measure, Carsales enjoys a very high market share that would increase substantially post-acquisition.
103. An advantage of revenue as a measure is that it provides some indication of the demonstrated willingness of advertisers to pay for each provider's classifieds. Carsales submits that a weakness of this measure is that it tends to under-represent those competitors whose model is based on free or low cost classifieds subsidised by display advertising.

¹¹ At paragraph 125(v) below, the ACCC invites submissions on the level of competitive constraint provided by Gumtree and other providers of free or freemium online automotive classifieds.

Removal of the competitive constraint provided by Trading Post

104. The ACCC considers that the proposed acquisition would result in the removal of one of Carsales' closest competitors for the provision of online automotive classified advertising, leaving Carsales facing a significantly diminished level of competition for these services. The product offering, promotions, pricing and services of Trading Post are consistent with the proposition put by market participants that Trading Post is one of the closest and most effective competitors of Carsales.
105. The two other largest competitors are Carsguide and Drive. The ACCC's market inquiries suggest these parties have struggled to win market share from Carsales despite having ownership links to print classifieds in newspapers, which might be expected to provide some competitive advantage through delivering audience and providing scope for bundled offers.
106. The ACCC's inquiries indicate that most car dealers advertise on Carsales. However, many dealers advertise on multiple websites to gain additional exposure to consumers. While no single website provides comparable exposure to that available from Carsales, the use of Trading Post combined with advertising on other non-Carsales websites offers some dealers a viable and competitive alternative to Carsales.
107. For some dealers it is currently a viable option to cease to advertise on Carsales (or to reduce advertising spending on Carsales websites) and to focus their advertising activities on other websites including Trading Post, Carsguide and Drive. The removal of Trading Post would reduce their ability and incentive to do so (or to credibly threaten to do so).
108. Similarly, without Trading Post, private advertisers will have fewer credible alternative advertisers to choose from, and will lose the benefits of competitive offers such as Trading Post's recent 'Good as Gone Guarantee', whereby advertisers were refunded the cost of the advertisement if the car was not sold within four weeks.
109. Many market participants have referred favourably to the fact that Trading Post offers a different advertising, branding and pricing mechanism than that offered by Carsales. In particular, dealers are not charged per lead but instead per account or per advertisement. In addition, Trading Post permits dealers to advertise their full contact details, branding, and links to other inventory. The ACCC is concerned that the proposed acquisition will result in a reduction of choice for advertisers by removing a significant competitor with an offer that is attractive to dealers and differs in important ways from the Carsales offer.
110. Market inquiries have indicated a widespread view that while some niche or specialty competitors have been successful in particular segments of the market, they impose only a very limited competitive constraint on Carsales. These players face very high barriers to expansion (as discussed below).

Would Carsales be constrained by the threat of entry and/or expansion post acquisition?

111. The ACCC's market inquiries have indicated that the current competitive constraint provided by Trading Post exists in large part because of its long established presence, having built a strong iconic brand, audience and advertiser base in Australia, including in automotive advertising online (and before that in print).

112. Similarly, to the extent that Drive and Carsguide are able to compete with Carsales, this is in large part due to historical advantages conferred through their links with print publishers which once enjoyed a very large share of automotive advertising.
113. Market participants have submitted to the ACCC that new entrants have been, and are likely to continue to be, unsuccessful in any attempt to match the inventory and audience size of Carsales or its smaller competitors Trading Post, Carsguide and Drive.
114. There are large sunk costs involved in starting a successful online classifieds business and a large part of these costs relate to investing in technology and marketing to build brand awareness.
115. Online classified advertising is characterised by significant network effects, meaning that sites become more valuable to users (both advertisers and customers), the greater the number of other users accessing the site. In markets with network effects, new entrants face difficulties in achieving the necessary 'critical mass'.
116. In order to overcome barriers arising from these network effects, a new entrant will need to spend large amounts on marketing and brand awareness to attract both advertisers and consumers, and even this is no guarantee of success.
117. While technology in terms of developing a classified site may be able to be acquired or licensed, the costs of this technology are likely to be sunk.
118. Some parties that have attempted to enter the market, as well as some existing players, have invested significant funds in an attempt to attract market share from Carsales, but with little or no success. Even though some parties have been able to build inventory (some dealers and private advertisers will list on additional sites if it is free or there is a small incremental cost), the ACCC's inquiries indicate that they have not been successful in attracting a large audience or a large number of paying advertisers.

Increase in barriers to entry from the proposed acquisition

119. The ACCC is concerned that network effects may exacerbate the competitive harm arising from the proposed acquisition, by adding significant inventory and audience to Carsales.
120. In particular, by adding the significant audience reach and advertiser penetration of Trading Post to the Carsales network, its already market leading positions will be further strengthened, making it even less likely that a dealer or private car advertiser would choose one of the remaining non-Carsales sites for its advertisements instead of Carsales, and making it less likely that a buyer looking for an automobile would want or need to visit any non-Carsales website.
121. Accordingly, the proposed acquisition is likely to raise barriers to entry, further hindering the likelihood of competitors (including potential new entrants and existing market participants) being able to successfully challenge and constrain the position of Carsales.
122. In this context, the proposed acquisition by Carsales would also remove the opportunity for a competitor to grow either through acquisition or through some other commercial arrangement with Trading Post, whereby their joint inventories and audience could be harnessed to allow them to better compete with Carsales.

Brand proliferation

123. To the extent that Carsales, following the proposed acquisition, pursues a strategy of operating the Trading Post and Quicksales brands as ‘freemium’ sites, the proposed acquisition may allow Carsales to pursue a brand proliferation strategy that stifles the nascent competitive threat to Carsales from freemium advertising companies by reducing their access to inventory and audience. In contrast, the ACCC’s preliminary view is that without the proposed acquisition, Carsales faces a strong incentive to respond to this threat with a more competitive offering.

Vertical integration

124. Carsales currently supplies a range of related services to automotive dealers including inventory distribution services (via DataMotive), automotive specification services (via Redbook) and inventory and lead management (via Autogate).
125. While the proposed acquisition will not increase the level of vertical integration currently enjoyed by Carsales, this vertical integration has the potential to exacerbate the extent of the above competition concerns. For instance, the services provided by Carsales’ Datamotive division provide Carsales with important information about the advertising behaviour of its dealer customers, which may provide it with some competitive advantage over its non-integrated competitors.

The ACCC invites comments from market participants on the likely competition effect of the proposed acquisition on online automotive classified advertising. In particular, interested parties are invited to comment on:

- (i) the most relevant metric(s) to measure market concentration in the national market for the supply of online automotive classifieds;
- (ii) the height of barriers to entry, including with reference to sunk costs and the critical mass (consumer eyeballs and advertisers) required to compete effectively with major online providers;
- (iii) the extent to which the proposed acquisition would increase barriers to entry, having regard to network effects and other relevant barriers;
- (iv) the extent to which the Trading Post is currently a vigorous and effective competitor in the market, and any harm to competition that is likely to arise from the removal of Trading Post as a competitor to Carsales;
- (v) the level of competitive constraint provided by Gumtree and other providers of free or freemium online automotive classifieds;
- (vi) the level of competitive constraint provided by Carsguide, Drive and any other existing competitor to Carsales and Trading Post;
- (vii) the degree to which dealers can bypass Carsales through advertising on a combination of other websites and how that might change post-acquisition; and
- (viii) the degree to which any strategy by Carsales to offer the Trading Post as a freemium site might constrain the growth of new competitors in this market segment.

Issues unlikely to pose concerns

Competition for the supply of online automotive display advertising

126. Some market participants have expressed concern that the proposed acquisition would strengthen Carsales' position in the online automotive display advertising market, particularly for advertisers such as car manufacturers, car insurers and car financiers.
127. However, it is not clear that Carsales' share of this market would increase significantly as a result of the proposed acquisition. In contrast to the market for online automotive classified advertising, display advertisers have a relatively larger range of alternatives. In addition to automotive classified websites, display advertisers with an automotive focus advertise on automotive editorial sites. Further, while they may not provide a sufficiently close constraint to be included in the relevant market, other (non-automotive) websites provide a switching option for at least some automotive-related display advertisers, albeit that a smaller proportion of the audiences of such sites are likely to find automotive display advertising highly relevant.
128. The ACCC will further investigate whether the proposed acquisition will materially affect competition and whether or not Carsales would be constrained post-acquisition by alternative competitors in this market.
129. The ACCC's preliminary view is that unless it receives further information to support the proposition that the acquisition would raise competition concerns in this market, the proposed acquisition does not appear likely to substantially lessen competition in this market.

The ACCC invites comments from market participants on the likely competition effect of the proposed acquisition on display or banner advertising. In particular, interested parties may wish to comment on:

- (i) the total size of the online automotive display advertising market (by revenue or other appropriate measure);
- (ii) the current share held by Carsales and other major players in this market;
- (iii) the extent of any competitive constraint on Carsales from automotive editorial and non-automotive websites; and
- (iv) whether the proposed acquisition raises any significant competition concerns in this market.

Competition for the supply of online general classified advertising

130. As noted above, Carsales operates the Quicksales general classifieds site.
131. Based on information available to the ACCC, Quicksales appears to have a relatively small market presence. While Trading Post is a stronger competitor in this market, the combined Quicksales/Trading Post entity will continue to be constrained post-acquisition by a number of other providers of online general classified advertising, particularly eBay and Gumtree (owned by eBay).
132. In light of the above, the ACCC's preliminary view is that the proposed acquisition is not likely to raise significant competition concerns in the national market for the supply of online general classified advertising.

The ACCC invites comments from market participants on the likely competition effect of the proposed acquisition on general classifieds. In particular, market participants may wish to comment on the extent of competitive constraints from alternative providers having regard to product categories, promotions, inventories, audiences and other relevant factors that would continue to constrain Carsales post-acquisition.

ACCC's future steps

133. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
134. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter.
135. Submissions are to be received by the ACCC no later than 2 November 2012. The ACCC will consider the submissions received from the market and the merger parties in light of the issues identified above and will, in conjunction with information and submissions already provided by the parties, come to a final view in light of the issues raised above.
136. The ACCC intends to publicly announce its final view by 29 November 2012. However the anticipated timeline may change in line with the Merger Review Process Guidelines. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.