AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

MERGER GUMTREE AND COX MEDIA SUBMISSION

17 FEBRUARY 2020

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FOREWORD

The AADA is the peak industry advocacy body exclusively representing franchised new car Dealers in Australia. There are around 1,500 new car Dealers in Australia that operate over 3,000 new vehicle outlets.

While our members are engaged in the sale of new vehicles, an equally important component of Dealer operations is the sale of used vehicles. As part of these operations Dealers engage in online advertising and at 51 per cent, represent the largest group of users of online classifieds, using whichever of the online marketplaces that provide them with the greatest opportunity to sell cars.[1] Inevitably their first choice is the site that attracts the largest number of interested buyers and in Australia that is Carsales, which has held the number one position for five years.

While its popularity among buyers has resulted in Carsales becoming an automatic choice, Dealers remain eager to encourage competition so will regularly duplicate their Carsales listings on some of the smaller sites, such as Facebook and Carsguide to capture additional viewers. More than 90 per cent of Dealers are Carsales customers and Carsales asserts that it is the most preferred site for buying and selling cars at +378 per cent compared to its nearest competitor.[2]

AADA members report that Gumtree and Cox Media largely cater to different markets with Gumtree carrying predominantly private sales and Cox Media, through Autotrader and Carsguide attracting buyers looking to purchase from licensed traders. Neither Cox Media or Gumtree is the leading player in the online car selling market however, with Carsales accounting for about 75 per cent of industry revenue.[3] Consequently, we believe that the merger between Gumtree and Cox Media will provide sufficient scale for the merged entity to provide at least some real competition to Carsales.

Better competitive parity obtained from the merger of Cox Media and Gumtree is likely to result in improved services and new opportunities for private sellers and car Dealers, as well as lower prices for all sellers, as both players battle for market share.

[1] M. Barry, *"IBIS World Industry Report OD4085 – Online Car Classifieds in Australia"*, Dec 2019, Page 16.

[2] Carsales 2019 Annual Report.

[3] M. Barry, Op. cit.

Section 1

We believe that it would be almost impossible for a brand-new player to enter the market and compete effectively with the established players, as the value of the extant networks is a strong attractor for consumers and the marketing expenditures required to compete would likely be prohibitive for any new market entrant. If current predictions prove accurate, Carsales will remain the dominant player for the next five years and smaller companies will fall by the wayside.[4] This being the case, the proposed merger represents the only likely prospect of improving competition in the sector.

We also note that the Carsales model, whereby the identity of selling Dealers is hidden from prospective purchasers, is a contributing factor in raising the price of cars purchased. As Dealers are required to pay per lead and there is no limitation on leads other than to remove the vehicle from view, there is no ability to control the costs of advertising a car once exposed to the market. Comparative costs across the platforms vary, and it is difficult to compare like for like, as the platforms each offer different features and services, however Dealers report that Carsales leads typically cost about $54 per lead and there is a service fee ranging from $450 for used cars through to approximately $1,000 per franchise per month for new or demonstrator vehicles advertising.

Carsales do offer an alternative model, where Dealers are able to show their identity and can pay per vehicle listing, however this is not popularly utilised or promoted. It is unclear to us why this is so.

We commend this submission for your consideration.

James Voortman
Chief Executive Officer

[4] M. Barry, *"IBIS World Industry Report OD4085 – Online Car Classifieds in Australia"*, Dec 2019, Page 9.

SPECIFIC QUESTIONS RAISED BY THE ACCC

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

The AADA is the peak industry advocacy body exclusively representing franchised new car Dealers in Australia. There are around 1,500 new car Dealers in Australia that operate over 3,000 new vehicle outlets.

Q 2: Please outline the reasons for your interest in the proposed acquisition, including any commercial relationships with Gumtree/eBay or Cox Media/Cox Automotive.

AADA is an association representing the interests of Franchised New Car Dealers across Australia. Dealer members are large users of automotive online classified advertising. The AADA has no commercial relationships with Gumtree/eBay or Cox Media/Cox Automotive.

Q 3: Please identify the specific Gumtree and/or Cox Media (CarsGuide/Autotrader) websites that you advertise on (or have previously advertised on).

The AADA is not an automotive retailer and does not advertise motor vehicles.

Q 4: Please provide any views on the most relevant metric(s) to measure the market shares of Gumtree, Cox Media and their competitors in the market(s) for the supply of online automotive classifieds (e.g. revenue shares, share of inventory and/or share of audience).

Carsales holds 77 per cent market share, while eBay Australia & New Zealand have 6.6 per cent. All others collectively comprise 16.4 per cent.[5]

Q 5: To what extent do Gumtree and Cox Media compete in the supply of online automotive classified advertising to private advertisers and/or commercial advertisers? Do you consider Gumtree and Cox Media to be particularly close competitors? For example, do they advertise similar inventory and/or do they provide advertisers with similar services?

It is our view that Gumtree and Cox Media largely supply services to different segments of the market. Whereas Gumtree is focused on the individual consumer selling their vehicle privately, Cox Media is mostly focused in supporting Dealers to reach consumers online.

[5] M. Barry, *"IBIS World Industry Report OD4085 – Online Car Classifieds in Australia"*, Dec 2019, Page 24.

Q 6: Please identify and describe other online classified businesses that compete with Gumtree and/or Cox Media for the supply of online automotive classified advertising services to private advertisers and/or commercial advertisers. In your response, please discuss how strong these competitors are.

Facebook Marketplace is the major alternative competitor for all market segments. As noted in the original application for merger, Facebook Marketplace has a vehicle inventory larger than Gumtree's.

Q 7: What factors (for example, number of potential buyers, available support tools, cost to advertise) are important to you when deciding which online classified advertising platform/s to advertise on?

The major factors for Dealers are the size of the advertising audience and advertising costs.

Q 8: Do you advertise the same vehicle on multiple online classified platforms? If so:

Dealers commonly advertise the same vehicle across multiple sites to reach the largest available target audience and to support and encourage competition across platforms. Our members indicate that Carsales remains the primary platform due to its largest audience.

Q 9: Do you consider there to be anything unique about the services provided by Gumtree, CarsGuide and/or Autotrader? You may wish to consider factors such as user experience, the nature and volume of information available, available support tools and product range.

While the various platforms have slightly different approaches to their business, we do not consider there is anything unique or irreproducible in any of them.

Q 10: Please identify any other channels that you advertise, or would consider advertising, vehicles through (from example, your own website, newspapers or other publications). How effective are these channels compared to online classified advertising platforms?

The AADA is not an automotive retailer and does not advertise motor vehicles.

Q 11: Would a new entrant, or existing business/online platform wishing to expand, face any significant barriers in seeking to establish a viable online classified business?

The AADA submits that, barring a completely unique offering, user interface or other compelling feature that adds new and significant value to Dealers, any new entrant to the online classified business would face significant barriers to success because of the current and overwhelming dominance of Carsales in the current market.

Q 12: Please identify any new entrants, or existing businesses/online platforms, that have expanded into the supply of online automotive classified advertising in the last three years and have been able to attract significant market share. Please identify any competitors to Gumtree and Cox Media that have exited the market in the last three years.

Facebook Marketplace entered the automotive market less than two years ago and, by virtue of their established 17 million users' base in Australia, already has a vehicle inventory larger than that of Gumtree.[6]

Q 13: Do you consider that other companies would constrain a combined Gumtree/Cox Media from raising prices or reducing the quality of its online automotive classified advertising services? Why? Which companies would provide this constraint?

The overall dominance of Carsales in this market provides a benchmark for competitors in terms of quality and prices. Any effective competition would have to deliver greater market penetration, and both higher performance and lower costs.

Q 14: For potential buyers of vehicles who use online automotive classified platforms:

a) Which platforms would you consider using to purchase a vehicle? Why?

b) What factors (for example, quantity and quality of vehicles available and the amount of information available about vehicles, platform ease of use) are important to you when deciding which platforms to search on?

c) Do you search for vehicles on multiple online automotive classified platforms?

The AADA is not qualified to speak on behalf of consumers.

[6] Application for Merger Authorisation – Gumtree, Page 10

Q 15: For acquirers of display advertising space (display advertisers), please identify the media channels (for example, print, digital or online, TV or radio) that you use for advertising and identify the specific Gumtree and/or Cox Media websites on which you acquire display advertising space.

a) How closely do Gumtree and Cox Media compete in the supply of display advertising services to third parties?

b) How closely do other online classified advertising platforms compete with the display advertising services offered by Gumtree and Cox Media?

c) What (if anything) distinguishes the display advertising services offered by Gumtree and Cox Media's platforms from services offered by other online classified advertising platforms?

d) Do you consider that advertising services offered by other companies would constrain a combined Gumtree/Cox Media from raising prices or reducing the quality of its display advertising services?

The AADA is not an advertiser on any online sites.

Q 16: To what extent do you consider that public benefits, including the ones listed in Attachment A, are likely to result from the proposed acquisition?

We believe that a merger between Gumtree and Cox Media would result in stronger competitive pressure being applied to the industry dominant player, Carsales. This will likely lead to better results for Dealers, private sellers and buyers.

Q 17: To what extent would vehicle buyers and sellers benefit from Gumtree and Cox combining their platforms? Why?

Stronger competitive pressure will likely result in improved consumer services and lower costs as better-matched competitors strive for primacy in the market. Their likely stronger joint resources may also result in their introducing innovative features as a means of counteracting Carsales stronger network presence.

Q 18: To what extent would a combined Gumtree/Cox Media be a stronger competitor to Carsales and Facebook Marketplace than Gumtree and Cox Media acting independently? Why?

AADA submits that Gumtree and Cox Media currently focus on separate markets, with Gumtree focusing on individual private sellers, and Cox Media focusing on the vehicle Dealers. This complementarity should mean that a merged entity will provide a broader set of services, to more businesses and private consumers than either of the current entities each by themselves.

Section 3

CONCLUSION

We would be happy to meet with the ACCC to further discuss our submission. If you have any questions, please contact me or our COO Brian Savage at the following:

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