

27 March 2020

Mr Tom Leuner
General Manager
Merger Investigations
Australian Competition & Consumer Commission

By email : mergers@accg.gov.au

Dear Mr Leuner

Application for merger authorisation MA1000019: Submission on the ACCC's statement of preliminary views and issues

Thank you for the opportunity to provide a submission in response to the ACCC's statement of preliminary views and issues regarding the application for merger authorisation lodged by Gumtree AU Pty Ltd (**Gumtree**) in relation to its proposed acquisition of Cox Australia Media Solutions Pty Ltd (**Cox Media**) (**ACCC's Statement**).

Executive summary

Online automotive classified advertising in Australia is dominated by Carsales. Irrespective of the market share measure used, Carsales dwarfs all other providers. Carsales' dominance is clear from the significantly higher prices it commands for listing on its site, including both significantly higher overall fees to dealers than other sites, and fees for private sellers where these sellers can list on other sites for free.

The reality facing Cox Media is that the Carsales brand is so strong that most dealers feel they cannot operate their businesses effectively without listing their vehicles on Carsales. As a result, Cox Media can only access marketing spend that is 'leftover' after dealers have listed their vehicles on Carsales. In seeking to attract this spend, Cox Media competes with providers of a range of marketing services, including not only other online automotive classified sites, but also providers of services to support dealer websites, and Facebook and Google, which are increasingly used by dealers to attract users to their own websites.

The proposed acquisition represents a unique opportunity for Gumtree and Cox Media to join together to create a stronger competitor that can move closer to becoming a viable alternative to Carsales. This would promote competition in the market (or markets) for the supply of online automotive classified advertising by increasing the competitive constraint on Carsales.

Further, there will be no impact on the supply of online display advertising. While the ACCC's Statement suggests that there may be a market for such advertising on online automotive classified platforms, automotive related businesses can connect with potential buyers via a broad range of digital advertising and there is no basis on which to conclude that automotive classified platforms offer a unique point of advertising. First, there is no basis on which display advertising on automotive classified platforms can be distinguished from display advertising on other automotive specific sites (for example, editorial sites such as CarAdvice and WhichCar). More significantly, however, digital advertising spend in the industry increasingly involves Google and Facebook and both of these platforms offer targeted online display advertising.

In any event, even if there was a market defined as narrowly as display advertising on automotive sites, Gumtree would not be a strong competitor in that market. The automotive sites that are Cox Media's key competitors in the supply of online display advertising are in Carsales, CarAdvice/Drive and WhichCar.

For these reasons, Cox Automotive Australia Pty Ltd (CAA) considers that the ACCC should grant the authorisation sought and allow Gumtree and Cox Media to come together to challenge the long entrenched dominance of Carsales.

CAA's response to the ACCC's Statement is set out in more detail below, after some background to automotive industry marketing spend.

Automotive industry marketing spend

Given that a significant proportion of Cox Media's revenue (across both online automotive classified advertising and online display advertising) comes from dealers and car manufacturers (OEMs), CAA provides some background to this marketing spend below. The discussion is informed by CAA's experience locally and as part of the Cox Automotive group, a global provider of services across the entire vehicle lifecycle.

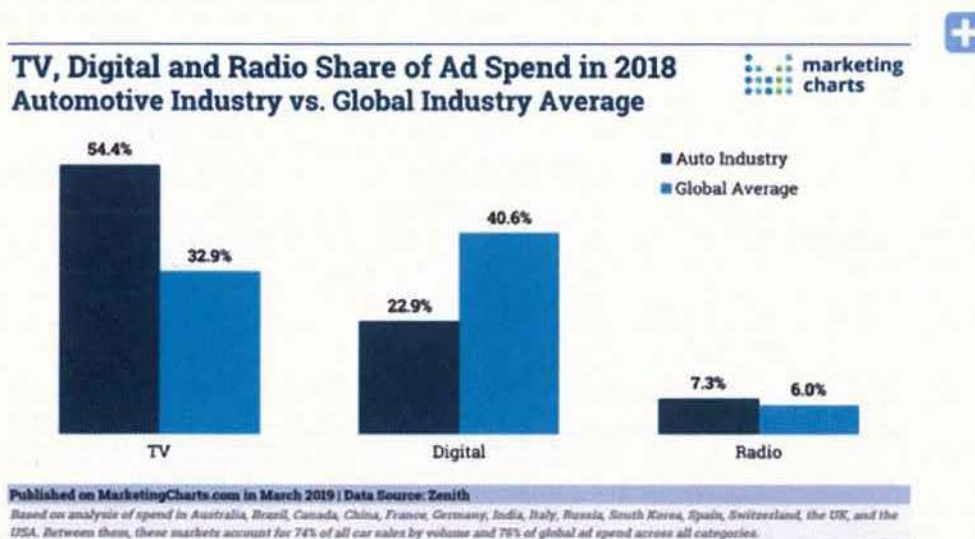
Regarding dealer media marketing spend, CAA understands the following:

1. Dealer's marketing spend includes digital marketing spend and 'offline' marketing spend (for example, radio and television). Overall, dealers' marketing spend is declining, but digital advertising spend is likely to increase on the basis it is more targeted and cost effective than 'offline' marketing.
2. Dealer digital marketing spend can include spend on the following:
 - a. online automotive classified sites, such as Carsales, Carsguide/Autotrader, Gumtree;
 - b. digital marketing services, including spend on a dealer's website and spend to encourage traffic to the dealer's website, including managed services (such as search engine optimisation and creative content), display advertising, paid search advertising and social media advertising; and
 - c. social media presence.

3. In general, dealers are seeking to reduce expenditure on online automotive classified sites and are increasing spend on other digital marketing services, including their websites and advertising to attract traffic to their websites.
4. Dealers (in particular, franchise dealers) dedicate a substantial share of marketing spend to social media. Much of this spend may be going to in-house management costs since many dealers manage their social media presence themselves.

In contrast to dealers and other industries, OEMs still rely heavily on 'offline' marketing, including in particular television advertising. This is reflected in Figure 1 below, which shows advertising spending by OEMs in the automotive industry in 14 key markets across the world (including Australia).

Figure 1: Advertising spend in the automotive industry in 2018¹



Online automotive classified advertising

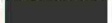
Market share measures

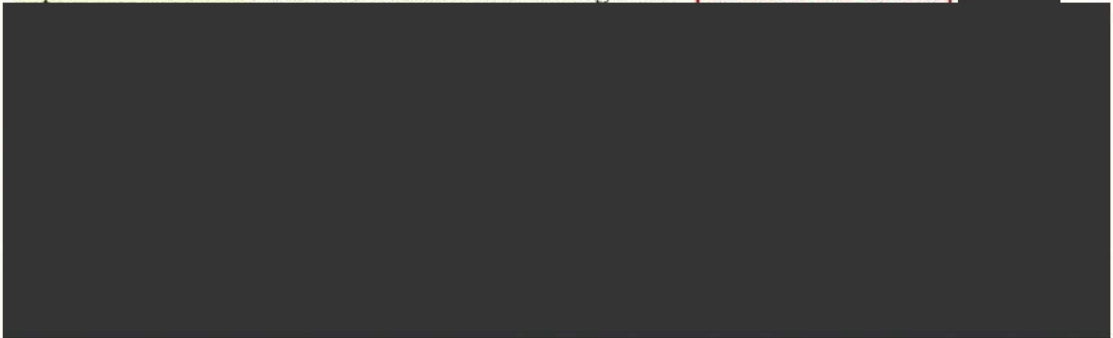
CAA agrees with the ACCC that determining the relative strength of competitors in the supply of online automotive classified advertising requires a range of market share measures to be considered. CAA makes the following observations:

1. Regarding the number of inventory listings as a measure of market share (discussed at [2.10] of the ACCC's Statement), pricing is also an important factor that determines the number of listings. In general, lower prices result in more inventory, but this does not indicate a stronger

¹ Published on MarketingCharts.com in March 2019. Data source: <https://www.zenithmedia.com/wp-content/uploads/2019/03/Automotive-adspend-forecasts-2019-executive-summary.pdf>; <http://www.zenithmedia.com/wp-content/uploads/2019/03/Global-Intelligence-08.pdf>.

competitor because the resulting revenues will be adversely affected. Carsales has both high prices and a high number of listings, which indicates it is a very strong competitor.

2. When considering audience share figures (discussed in the ACCC's Statement at [2.11]), it is important to consider where the audience is coming from. **[Confidential to Cox]** 



3. Regarding revenue shares (discussed in the ACCC's Statement at [2.12]), the relative strength of competitors is a key input to the pricing structures and levels they adopt (which will in turn drive revenues for online automotive classified services). For instance:
 - a. Carsales is able to charge private sellers for listing on its site (except in respect of vehicles listed for less than \$4,999). By comparison, other sites offer private listings for free, relying solely on online display advertising and/or dealer listing fees.
 - b. Carsales can also earn significantly more revenue from dealers per listing because it is largely considered to be an essential advertising platform. Cox Media is more limited in what it can charge dealers (as discussed in the Confidential Statement of Shaun Corbett Cornelius dated 23 December 2019 (**Cornelius Statement**) at [41]-[59] and Confidential Statement of Robert Joseph Whiten dated 18 December 2019 at [29], submitted with Gumtree's application).
4. Irrespective of the market share measure used, Carsales is, without doubt, the dominant provider of online automotive classified advertising in Australia.

Proposed acquisition will not substantially lessen competition but will promote competition

The ACCC has indicated that it is considering a likely trade-off between:

- the competitive losses from Cox Media ceasing to be an independent competitor to Gumtree; and
- the competitive gains from the proposed acquisition creating a more vigorous and effective competitor.

The proposed acquisition represents a unique opportunity for Gumtree and Cox Media to join together to create a stronger competitor that can move closer to becoming a viable alternative to Carsales. This would promote competition in the market (or markets) for the supply of online automotive classified advertising by creating a constraint on Carsales.

Even if the ACCC does not accept that the proposed acquisition is pro-competitive, the ACCC can be satisfied that the proposed acquisition will not substantially lessen competition because:

1. As the ACCC accepts (at [2.21] of the ACCC's Statement), Carsales is likely to impose a significant competitive constraint on Gumtree post-acquisition. It is, and will remain, the dominant supplier of online automotive classified advertising in Australia.
2. Other existing competitors to Gumtree and Carsguide/Autotrader will continue to constrain the merged entity in providing services to dealers, including CarAdvice/Drive, WhichCar, Trading Post and Facebook Marketplace. Competition for private sellers will also continue between the merged entity and Drive, Trading Post and Facebook Marketplace.
3. In addition, and more significantly, the merged entity will continue to compete with Google and Facebook for the digital advertising spend that is 'leftover' after dealers list with Carsales. Cox Media competes strongly for advertising spend with Google and Facebook and understands that dealers see them as substitutes, because dealers often compare the return on investment from online classifieds marketing campaigns with the return on Google and Facebook advertising spend.

The absence of significant objections to the proposed acquisition on the part of dealers (as noted in the ACCC's Statement at [2.17]) is strong support for a conclusion that the proposed acquisition will not substantially lessen competition. If dealers were reliant on competition between Gumtree and Carsguide/Autotrader, they would be concerned about the effect of the proposed acquisition on them and this would have been raised in the ACCC's market inquiries.

Online display advertising

Market definition

The ACCC's preliminary view (set out in the ACCC's Statement at [2.1] and [2.7]) is that the relevant market for assessing the effect of the proposed acquisition on display advertising may be a national market for the supply of online display advertising on automotive classified platforms, on the basis they provide a relatively unique and valued display advertising service to automotive related businesses wanting to reach prospective car buyers.

CAA does not agree that the market can be so narrowly defined. Automotive related businesses can connect with potential buyers via display advertising across a broad range of sites and through various platforms and there is no basis on which to conclude that automotive classified platforms offer a unique point of advertising. CAA observes that:

1. There is no basis on which display advertising on automotive classified platforms can be distinguished from display advertising on other automotive specific sites (for example, editorial sites such as CarAdvice and WhichCar).
2. In addition, both Google and Facebook allow advertisers to target potential acquirers of cars and car related products, including through programmatic advertising. For instance:

- a. Google Ads displays advertisements when people search for related products or services. Advertisements can appear on Google Search and Maps, and across Google's network of partner sites.
- b. Facebook offers advertising on its social media platform and places advertisements following an ad auction. The ad auction has the goal of matching 'the right ad to the right person at the right time' (Facebook, *ACCC Digital Platforms Inquiry, Submission by Facebook Australia Pty Limited*, 18 April 2018, pp. 29-31), meaning the audience can be appropriately targeted.

This means that acquiring display advertising on online automotive classified listings sites or automotive specific sites is not the only way an advertiser can target its desired audience.

3. Digital advertising spend in the industry increasingly involves spend on Google and Facebook. For example:
 - a. Dealers are increasingly advertising using Google and Facebook to drive traffic to their own websites. This includes through search engine optimisation, display and paid search advertising, and social media advertising on Facebook.
 - b. Cox Media understands anecdotally that around 80% of the digital advertising spend of OEMs is on Google and Facebook.

The rise of Google and Facebook has made it more difficult for online automotive sites to attract advertisers. In the last [Confidential to Cox] [Redacted] Cox Media's media revenue (being its revenue from display advertising) [Confidential to Cox] [Redacted]. This trend, and the impact of Google and Facebook, is discussed in Cox Media's confidential budget proposal for 2020 dated 29 August 2019 (Confidential Annexure SCC-3 to the Cornelius Statement, slides 6, 23-25, 27 and 58). In addition, Carsales reported a decline in advertising revenue of 13% in the year ended 30 June 2019 (Carsales.com Ltd, *Annual Report 2019*, p. 33).

Proposed acquisition will not substantially lessen competition

The proposed acquisition will not give rise to a substantial lessening of competition given the merged entity will continue to face strong competition for digital marketing spend from Google and Facebook.

In any event, even if a narrower market definition is adopted, the automotive sites that are Cox Media's direct competitors for online display advertising revenue are Carsales, CarAdvice/Drive and WhichCar (not Gumtree). [Confidential to Cox] [Redacted]

The proposed acquisition therefore cannot be found to substantially lessen competition.

Dealer Solutions


The ACCC seeks further submissions about vertical issues relating to Dealer Solutions (at [2.40] of the ACCC's Statement).

At present, Dealer Solutions provides services to Cox Media and (separately) to Gumtree to allow dealers to publish listings on Carsguide, Autotrader and Gumtree.

Dealer Solutions is the conduit for publishing on Carsguide and Autotrader. Using a single provider provides material economic benefit to platforms as Cox Media does not have to build and maintain separate systems and relationships with multiple parties. Doing so would be costly, time consuming and yield little benefit.

Dealer Solutions will continue to provide services to Cox Media and Gumtree post-acquisition. However, as Dealer Solutions will no longer be a related body corporate, these arrangements will be arms-length.

CAA makes the following comments regarding the concerns raised in the ACCC's market inquiries process:

1. Regarding the suggestion (discussed in the ACCC's Statement at [2.37]) that, in providing data aggregation services to dealers, Dealer Solutions could favour the Carsguide/Autotrader/Gumtree platforms over platforms operated by third parties:
 - a. Even against the background of joint ownership, Dealer Solutions has never refused to list vehicles on platforms other than Carsguide and Autotrader. Dealer Solutions' branding and marketing position is that it is an independent distributor of listings. Dealer Solutions will distribute to any platform of the dealer's choice. Dealers determine their advertising strategy and Dealer Solutions facilitates this.
 - b. It would not be in Dealer Solutions' interests to disrupt a dealer's decision as to where they publish listings. Dealers would not accept this and would change data aggregator.
2. Regarding the suggestion (discussed in the ACCC's Statement at [2.39]) that Gumtree would have a greater ability and incentive to seek to limit where Dealer Solutions can send dealers listings:
 - a. This suggestion presupposes that the merged entity has obtained sufficient market share to make this a commercially viable option for Dealer Solutions. This is not the case at the present time.
 - b. Given Dealer Solutions will not be a related body corporate to the merged entity, any move to limit competition in this way will be subject to the *Competition and Consumer Act 2010* (Cth) at the time.
3. Regarding the implications for the provision of publishing services (discussed in the ACCC's Statement at [2.37] and [2.40]), **[Confidential to Cox and Gumtree]** 

The proposed acquisition and associated arrangements can be contrasted with the vertical integration of Carsales. We refer to this as the Carsales 'ecosystem'. Dealers cannot publish to Carsales without going through DataMotive (a division of Carsales) and leads from Carsales are only accessed via Autogate, Carsales' LMS system. Whereas the Carsales structure ensures its customers are tied to Carsales through the entire process, the proposed acquisition involves breaking up the vertical relationship that currently exists between Dealer Solution and Cox Media.

Confidentiality

CAA requests that the information above marked as confidential be excluded from the ACCC's public register on the basis that it is not otherwise publicly available and is commercially sensitive such that its disclosure would result in damage to CAA's and Cox Media's businesses.

Yours sincerely



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