



File Note

Matter name	Graco Australia RPM Notification
ACCC parties	David Hatfield, Jaime Martin, Gemma Smith, Michael Thrower
TRACKIT No	RN10000461
Other parties	GO Industrial: Jacob Morgan
Date	Wednesday, 24 May 2023
Time	02:30 pm

Phone to <input type="checkbox"/>	Phone from <input type="checkbox"/>	Meeting <input checked="" type="checkbox"/>	Other <input type="checkbox"/>
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Information to the following effect was provided:

Background on business

GO Industrial is in its fifth year of business selling paint spraying equipment but has had a longer relationship with Graco through a previous business which was a distributor of Graco’s fluid handling equipment. GO Industrial sells contractor equipment and doesn’t supply paint at all. GO Industrial is therefore solely reliant on equipment sales and Graco’s paint sprayers is a significant portion of its business.

GO Industrial also does equipment servicing for Graco products.

Sales process and support

Graco paint sprayers are not at all like a consumer tech product where you can just purchase one off the shelf. GO Industrial has identified that these are very technical products that need a lot of information provided with them. For tradesman, there are big gaps in knowledge around paint sprayers as this is an emerging technology. Therefore, the industry is reliant on TAFE courses and tradesman teaching apprentices how to use this equipment. Otherwise, these tools can be dangerous.

GO Industrial has dedicated technical support guys to conduct FaceTime/phone calls or site visits to help set up this equipment. FaceTime is useful for regional areas. On site visits, it is possible to show customers how to use the equipment they have just bought. It is quite a lengthy process to get these set up, whether for DIY users or tradesmen. Where a site visit

isn't feasible, GO Industrial has demo facilities and depots nationwide to demonstrate this equipment.

GO Industrial has also invested heavily in providing media to guide users through the process. When consumers are looking to purchase equipment like this, they may do a lot of initial research and watch the videos GO Industrial creates or ask questions over the phone. After the purchase, GO Industrial provides flyers and QR codes for after-sales support and information.

The customer service and support processes GO Industrial has created differentiates it from competitors. It is complicated to compete against the paint store network which has margin available in paint, which means they can treat this equipment as a paint-selling machine. Some stores support the equipment more than others, but to get the sale across the line they may discount the Graco product or the paint.

GO Industrial tries to set its prices as close to Graco Australia's RRP as possible because that margin covers the time invested in media, onsite training, etc. which GO Industrial doesn't charge for.

Servicing support such as over-the-phone troubleshooting also isn't charged for as it is part of GO Industrial's brand awareness strategy. GO Industrial have a strong relationship with Graco Australia and it considers that Graco would not likely have sufficient resources to solve this many over the phone queries.

Consumers are often confused about the competitive landscape and confuses GO Industrial as being a part of the Graco business.

Freeriding

Freeriding has been an issue since day 1 for GO Industrial but the issues have gotten worse as the discount offered to different distributors has come up and down over time. Online discounting is getting worse with significant discounts being offered. Discounts being offered to consumers used to be capped at 10%. Now every online retailer has Graco products on special all the time and it's more like a 25-30% discount. A lot of online sellers aren't tech savvy or understand ecommerce well, so things like price rises in Graco's products aren't happening in a timely manner on competing retailers' websites.

GO Industrial adjusts the prices to the RRP set by manufacturers as they change, but other stores don't and work off old price lists. Then consumers jump online and see the same machine being sold at a \$2,000 difference in price and it creates a lot of confusion.

If the minimum advertised price policy is not implemented and the freeriding and discounting continues, GO Industrial would need to buy more stock to sell more volume to increase its margins (by being able to secure a larger discount from Graco). Consumers are very savvy – as soon as they google the product, the cheapest price always wins. So, you either have to take the higher road and keep the price at the RRP or match that discounted price. Overall, GO Industrial would have to buy more stock to get more margin to trade sustainably which detracts from all the extra things that the brand does.

It is a very pivotal time in this landscape for GO Industrial. GO Industrial is very invested with Graco and spends a lot of money with them each year.

Some Graco distributors are just selling online and don't have a physical retail space. Some start that way and then change to a mobile inventory model. Some of the online-only distributors aren't committing to stock. For example, Trade Gear started off selling product out of a van.

To be an authorised dealer under the distributor agreement, they should have a service and warranty capacity but there are loopholes, and some distributors are onboarded without having that capability (for example, like Paint Access initially). In the last 6 months, Paint Access has only just started servicing and warranting the equipment but has had 2 years of online trading without offering that support. Sydney Tools is similar. They barely hold any stock and GO Industrial often has to service on their behalf. Wattyl group is another – they don't have a service or warranty centre in Victoria or Queensland but are an Advanced Distributor. This is a sticky point which has not been managed well over time.

Alternatives to the minimum advertised price (MAP) Policy

As for whether there is an alternative to introducing the MAP policy such as altering or enforcing the distributor agreement model, there are some complexities there. Some distributors likely don't have the required resources – for example, in regional areas they can't meet the servicing requirements sustainably which would mean they couldn't trade that range at all.

GO Industrial is 'very friendly with its competitors' in that it will help out with post-sales service, such as when the equipment is too technical for others to service, GO Industrial will have it freighted to it for servicing. There are some exceptions to the rule, but for the most part the distributor model is quite well policed by Graco, though there have been some exceptions. For example, paint companies or the distributors run from overseas which demand the same business model here as they use overseas.

Graco's Competitors

Wagner is Graco's biggest competitor. Others include:

- Q Tech (imported by Aristo Spray from UK or EU) and the sub-brand TriTech (which is more focussed on spray tips and accessories)
- AtomX (owned and imported by AASpray)
- Ozito (through Bunnings).

Wagner and Graco sell some similar products. Wagner have some strong models, but overall, they do not have nearly the investment nor manufacturing capabilities that Graco has, so their products are not like for like in terms of quality of components. Wagner is more mid to low end and has a huge presence in DIY market.

Wagner products experience similar pricing discrepancy online. The multi-brand approach is the best and better approach – Wagner is used as the middle price point option and Graco products as the premium. Pricing is all over the place – there doesn't seem to be a trend. Wagner are more likely to be on "fire sale" as distributors are wanting to get rid of floor stock.

GO Industrial considers Graco is the market leader. GO Industrial has the best of brands approach – it picks one key vendor in a category and gets behind them. GO Industrial gives the brand a pledge that GO Industrial is invested in them and will not stock their competitors.

Impact of discounting activity on GO Industrial's margins overtime

In the early days, discounting wasn't as much of an issue and it was more service-based competition. Over time, as Graco shifted from existing to new models of products, Dulux Group bought a lot of stock. Dulux Group were running trade expos and advertising sales of 30% off. GO Industrial's available margin is [REDACTED]. This means Dulux had access to a volume of stock they were openly marketing at a discount, which gave consumers this opinion on what distributors available margin is and changed consumers' opinions on the premium and margin available.

[REDACTED] That is not a lot of margin considering all the things GO Industrial does for the Graco brand.

GO Industrial has experimented by selling the Graco paint spraying range at RRP. This resulted in slowdown in volume online. With less orders coming through, GO Industrial could go over-and-above for a smaller amount of customers, but was not turning over as much stock as hoped. Now, GO Industrial is testing the market by meeting the prices advertised online. Consequently, sales volume is up but the trade-off is staff are run off their feet trying to uphold the same service standard.

Likely impact of the MAP Policy

It is always the case that the more stock you buy from the manufacturer, the better the deal you get. For GO Industrial, if the MAP doesn't go ahead, it will have to meet the market and just hold more Graco stock to maintain margin.

With the MAP policy in place, price matching wouldn't be an issue. Not many customers would call for prices elsewhere. The MAP Policy would prevent the micro moment where customers google the product and see discounted pricing. GO Industrial would hopefully then be able to position itself as providing the right advice and support. Sales would no longer be about that initial online price determining which distributor a consumer purchases from.

Especially for the high investment items, it will ensure consumers read about who they are purchasing from, and seeking to ensure that they will be able to get good service after their purchase. This is the nature of this technical equipment - as soon as you put paint in a machine there are so many problems which can arise. GO Industrial deals with customers for years after a sale. Might be every 6 months GO Industrial gets a call from each customer for support or advice.

Graco training and support

Graco has a good training program and resources, including Graco University. Graco flies techs out from the US a couple of times a year to run advanced training. There is a local technical support team run by two engineers. GO Industrial sends problems it can't solve to them, which is handy. Graco supports GO Industrial's warranty program very well. Graco has a dedicated team available year-round.

When distributors don't look after customers properly it creates a lot of noise. If distributors are not offering servicing, those customers then go straight to the brand so a lot of Graco's time is tied up in dealing with customers that should be dealt with by distributors.