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# AP Eagers / AHG

## An assessment of local market definition for new car dealership sites in Newcastle and Brisbane

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RBB Economics, 23 April 2019

### 1 Overview

AP Eagers Limited (**APE**) proposes to acquire Automotive Holdings Group Limited (**AHG**). Allens, external counsel to APE, has instructed RBB Economics (**RBB**) to analyse the potential extent of any local geographic markets for new car dealerships and options available to car buyers in Newcastle and Brisbane respectively.<sup>1</sup> Based on the information available, and most importantly the “pump out” and “pump in” data in the Deloitte report submitted to the ACCC (*the Deloitte report*), we consider that the scope of any relevant local geographic market around Newcastle would encompass at least the Newcastle region and the Central Coast, and is likely to include Sydney. We consider that the local geographic market around Brisbane would encompass at least the Brisbane region, and would be likely to include the Gold Coast and Sunshine Coast.<sup>2 3</sup>

In section 2, we provide a framework to assess local geographic market definition. This section discusses the use of the hypothetical monopolist test to define geographic markets, which

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<sup>1</sup> We understand that APE considers the geographic scope of the market to be national, not local, but we have not been asked to comment on whether the geographic scope of the market may be national. See AP Eagers, ‘Acquisition of Automotive Holdings Group Limited by AP Eagers Limited: Merger Authorisation Application’, 23 April 2019, page 7.

<sup>2</sup> Deloitte, *Automotive Car Buyer Behaviour Study – Newcastle region and Brisbane region*. The Newcastle region encompasses the city centre of Newcastle as well as surrounding suburbs, such as Rutherford, Maitland, Cardiff, Gateshead, Cessnock and Singleton. The Brisbane region include the city centre of Brisbane as well as surrounding suburbs, such as Rochedale, Bald Hills, Capalaba and Indooroopilly. See pages 11 and 66 of the Deloitte report for further details.

<sup>3</sup> RBB has not been asked to assess the relevant product market and we do not consider commercial vehicles. For the purpose of this report, we treat all non-commercial car brands as being within the same relevant product market. When considering geographic market definition, we acknowledge that customer preferences over car brands and whether there are dealers nearby selling particular brands could affect how far customers are willing to travel to buy a new car.

relies on examining the area over which a hypothetical monopolist could profitably impose a small but significant and non-transitory increase in price (**SSNIP**). We then consider the use of catchment areas, which are commonly used to determine areas in which competing firms have the potential to serve the same customers.

In section 3, we consider the results of analysis of “pump-out” and “pump-in” data for APE dealership sites in the Newcastle and Brisbane regions presented in the Deloitte report. We consider what the pump out and pump in data reveal about likely catchment areas and geographic markets for new car dealership sites in the Newcastle and Brisbane regions respectively. Pump-out data show the proportion of customers that a dealership site serves from outside a collection of postcodes allocated to it by the car manufacturer, known as the primary marketing area (**PMA**), while pump-in data show the proportion of customers within a PMA that buy from outside the PMA.

We use pump out data to show the catchment area around a dealership site. The data suggest that the catchment areas for dealerships in the Newcastle and Brisbane regions are wider than the PMAs. They encompass at least the Newcastle region (and Central Coast) and the Brisbane region respectively. The full catchment area around Newcastle dealer sites is likely to include Sydney, and the full catchment area around Brisbane dealer sites is likely to include the Gold Coast and Sunshine Coast.<sup>4</sup>

The pump-in data show that customers in the Newcastle (and Central Coast) and Brisbane regions purchase new cars from dealership sites located outside the Newcastle (and Central Coast) and Brisbane regions respectively at current prices. This shows that customers are already willing to travel outside the Newcastle (and Central Coast) and Brisbane regions respectively at current prices. If relative prices in the Newcastle (and Central Coast) and Brisbane regions respectively were to increase by 5 to 10 per cent, the customer flows to dealers outside these regions may be large enough to make the SSNIP unprofitable. Even the loss of a small volume of sales could mean that dealers no longer meet volume targets and thereby lose associated payments, which in turn could make the SSNIP unprofitable.<sup>5</sup>

This, in turn, would suggest that the geographic market should be broadened to include areas outside the Newcastle (and Central Coast) and Brisbane regions respectively. For the Newcastle region (and Central Coast), this would suggest that the market should be broadened to include Sydney, which accounts for the largest share of customer flows outside the Newcastle region (and Central Coast). For the Brisbane region, this would suggest that the market should be broadened to include the Gold Coast and Sunshine Coast, which are the largest urban centres close to the Brisbane region.

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<sup>4</sup> “Sydney” is defined as the city centre of Sydney as well as surrounding suburbs such as Windsor, Camden, Campbelltown and Newport. See page 105 of the Deloitte report for further details.

<sup>5</sup> AP Eagers, ‘Acquisition of Automotive Holdings Group Limited by AP Eagers Limited: Merger Authorisation Application’, 23 April 2019, pp. 32 and 36.

## 2 A framework for assessing local market definition

This section provides a framework for defining local geographic markets. Section 2.1 discusses the use of the hypothetical monopolist test, particularly as applies to geographic (rather than product) market definition. Section 2.2 discusses catchment area analysis, and the use of catchment areas as a proxy for local geographic markets.

### 2.1 The use of the hypothetical monopolist test

This section describes the use of the hypothetical monopolist test, which is a standard way to assess both product and geographic market definition. It describes how to apply the hypothetical monopolist test to assess local geographic markets.

The hypothetical monopolist test provides the geographic area within which a hypothetical monopoly supplier of a given product could profitably impose a SSNIP. It does so by testing whether a hypothetical monopolist would be able to profitably implement a SSNIP (typically of 5 to 10 per cent) within a candidate relevant geographic market. In the event that the SSNIP would be unprofitable, the test is repeated on larger geographic areas until the SSNIP would be profitable.

The hypothetical monopolist test is rarely applied numerically.<sup>6</sup> Instead, it is used as a conceptual aid to interpret evidence of demand and supply substitution. In the context of local geographic market definition, assessing demand side substitution involves examining whether enough customers would switch to stores in nearby local areas to make a SSNIP unprofitable, which would then suggest broadening the geographic market. Supply side substitution involves assessing whether suppliers outside the candidate geographic market would start supplying customers in a candidate geographic market if a hypothetical monopolist in that area were to impose a SSNIP to make the SSNIP unprofitable, which again would suggest broadening the geographic market.

The SSNIP test framework can be used to assess available evidence on demand and supply substitution, and to test whether a candidate local geographic market is likely to satisfy the SSNIP test, or whether the geographic market should be broadened to include other nearby areas.<sup>7</sup>

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<sup>6</sup> See, for example, ACCC, *Merger Guidelines*, 2008, paragraph 4.22. This states: “While the HMT is a useful tool for analysis, it is rarely strictly applied to factual circumstances in a merger review because of its onerous data requirement. Consequently, the ACCC will generally take a qualitative approach to market definition, using the HMT as an ‘intellectual aid to focus the exercise’” and cites *Seven Network Limited v News Limited*, FCA 1062, 2007 at paragraph 1786.

<sup>7</sup> See, for example, ACCC, *Merger Guidelines*, 2008, paragraph 4.27 and OFT/CC, *Merger Assessment Guidelines*, September 2010, paragraph 5.2.23. The ACCC guidelines suggest examining evidence on:

- the portability of the relevant product as determined by its perishability, weight, etc.
- transportation costs to move the relevant product between regions (particularly the transportation costs as a proportion of total value of the product)
- the costs to customers of obtaining supply from alternative regions
- any limitations on the ability of customers to access alternative sources of supply in alternative regions
- the costs of extending or switching production and distribution systems to supply the customers in alternative regions
- any regulatory or other practical constraints on suppliers selling to alternative regions
- records relating to trade flows and the actual movement of customers and/or suppliers between geographic regions, especially related to changes in relative prices across regions in the recent past
- views and business records of buyers and suppliers regarding the likelihood of switching between geographic sources of supply

## 2.2 Catchment area analysis

The catchment area of a particular store is the geographic area from which that store makes the vast majority of its sales. Catchment areas can be used to inform the assessment of local geographic markets using the hypothetical monopolist test. For example, it may be possible to use a catchment area as a candidate local market and then to test whether the market satisfies the SSNIP test or not, in which case the local market would be at least as wide as a catchment area.<sup>8</sup> Catchment areas are also sometimes used as a proxy for relevant local markets, especially when there are a larger number of overlapping competitor stores and it is necessary to use a filter to identify local markets in which competition concerns are more likely. This is based on the intuition that “[s]tores are likely to be alternatives for some customers, and therefore competitors, if their catchment areas overlap.”<sup>9</sup>

If all customer sales were used to define a catchment area, a small number of outliers or special cases could influence the boundaries of the catchment area. For example, some customers may shop at a particular store because they happen to be in the area but do not typically shop at the store or consider it an alternative to the shops they normally visit. As a result, competition authorities sometimes define the catchment area after excluding some outliers.<sup>10</sup>

Authorities often apply an average across store catchment areas. This is to smooth out variation in catchment areas around stores. For example, a given store may have a small catchment area not because it does not compete for customers further away but simply because those customers located further away have other, closer, stores available to them.<sup>11</sup>

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- the relative price levels and price movements of different geographic sources of supply.
- The OFT/CC guidelines suggest examining:
- product characteristics such as perishability;
  - information on differences in pricing, sales, advertising and marketing strategies by area;
  - information enabling the estimation of ‘switching costs’ (which can include additional delivery costs) that customers might incur in changing to products that are currently supplied in other geographic areas relative to the value of the products and the length of time taken to make the switch;
  - responses from customers, competitors and interested and informed third parties to questions—sometimes posed in surveys—on consumer preferences by geographic area; and
  - information on flows of goods between regions or into the UK and any barriers to entry, whether legislative, natural or strategically created.

<sup>8</sup> See, for example, OFT/Competition Commission, *Merger Assessment Guidelines*, September 2010, paragraph 5.2.25, which state: “[c]atchment areas are a pragmatic approximation for a candidate market to which the hypothetical monopolist test can be applied; the use of catchment areas is not an alternative conceptual approach. However, the geographic market identified using the hypothetical monopolist test will typically be wider than a catchment area. Consequently, if the impact of the merger on concentration in this catchment area appears un-problematic, then the Authorities may exclude the local area from further analysis without concluding on the boundaries of that particular relevant geographic market.”

<sup>9</sup> CMA, *Retail Mergers Commentary*, 10 April 2017, para. 2.2.

<sup>10</sup> The CMA does not specify a percentile threshold to calculate catchment areas in its merger guidelines (OFT/Competition Commission, *Merger Assessment Guidelines*, September 2010), which are also discussed at footnote 8 above. As described in the CMA’s *Retail Mergers Commentary*, 10 April 2017, the CMA has usually used 80<sup>th</sup> percentile catchment areas, i.e. treating 20 per cent of sales as involving outliers. In its 2000 grocery inquiry report, the UK Competition Commission considered evidence on stores’ 80<sup>th</sup> and 90<sup>th</sup> percentile catchment areas. See the UK Competition Commission, *Supermarkets*, 2000, Chapter 4, paras. 4.112, 4.116, 4.119 and 4.121. See NMa, *Orbis-Atrium*, 2012. The French Competition Authority (FCA) excluded no possible outliers in *Antargaz/Totalgaz* (2015), which involved a merger between two LPG distributors, where every customer (irrespective of how distant) was considered to be of value to the supplier because (a) the supplier distributed the product to the customer rather than the customer going to the supplier, and (b) a customer typically had a contract with a specific supplier. The FCA therefore defined each depot’s catchment area based on all of its sales, i.e. using a 100<sup>th</sup> percentile. See *Antargaz/Totalgaz*, FCA decision of 15 May 2015, paragraph 51.

<sup>11</sup> See, for example, CMA, *Retail Mergers Commentary*, 10 April 2017, paras 2.21-2.22.

### **3 Views regarding geographic markets for new car dealerships in the Newcastle and Brisbane regions**

We use “pump out” and “pump in” data to inform our view of the likely geographic markets. Manufacturers provide these data to their authorised dealers and they show the flow of purchases across different geographic areas.

We use pump-out data to define catchment areas around dealer sites. The catchment area around a dealer site in the Newcastle region encompasses at least the Newcastle region (and Central Coast) and is likely to include Sydney. The catchment area around a dealer site in the Brisbane region encompasses at least the Brisbane region and is likely to include nearby urban areas such as the Gold Coast and Sunshine Coast.

Catchment areas do not show how customers would respond following a SSNIP and so could understate the size of the relevant local geographic markets. To help address this concern, we use pump-in data to understand where customers based in the Newcastle and Brisbane regions travel to buy new cars. These data still reflect customer purchasing patterns at current prices, rather than in response to a SSNIP. They show that substantial numbers of customers already purchase from outside the Newcastle (and Central Coast) and Brisbane regions respectively at current prices. We would expect a greater number of customers to switch their purchases to outside the Newcastle and Brisbane regions respectively in response to a SSNIP, and this could make the SSNIP unprofitable. Even the loss of a small volume of sales following a SSNIP could make it unprofitable due to the possibility that the dealers would no longer earn payments for meeting volume targets.<sup>12</sup>

The rest of this section explains the pump-out and pump-in data that are available for some new car dealership sites (section 3.1). We then present catchment areas using the pump-out data available for APE’s dealership sites in the Newcastle and Brisbane regions (section 3.2). We also present the pump-in data, which show that a substantial number of customers in the Newcastle and Brisbane regions respectively purchase from outside these regions (section 3.3).

#### **3.1 Pump-out and pump-in data**

##### **3.1.1 Pump-out data**

Pump-out data for a given dealership site record how many of that dealership site’s sales are made to customers in its PMA and how many are made to customers in the PMAs of other dealership sites. Put simply, pump-out data for a given dealership site are based on the customer sales data of that dealership site (and of that dealership site alone).

Pump-out data can be used to define each dealership site’s catchment area, which, as discussed above, can be used as a candidate local market to which to apply the SSNIP test or can be used as a proxy for the local geographic market. We note that catchment areas do

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<sup>12</sup> AP Eagers, ‘Acquisition of Automotive Holdings Group Limited by AP Eagers Limited: Merger Authorisation Application’, 23 April 2019, pp. 32 and 36.

not capture how consumers would respond following changes in relative prices across regions.<sup>13</sup> They therefore provide imperfect evidence of how customers would switch to rival dealer sites (in another region) in response to a SSNIP by a hypothetical monopolist in the former region.

### 3.1.2 Pump-in data

Pump-in data for a given dealership site record how many sales to customers in that dealership site's PMA are made by that dealership and how many are made by other dealership sites in other PMAs.<sup>14</sup> Unlike pump-out data, which are based on a particular dealership site's sales, pump-in data cannot be used to define a dealership site's catchment area. Nevertheless, pump-in data are still relevant to the issue of geographic market definition. Broadly speaking, the greater the share of customers in a geographic area (whether a PMA or otherwise) that are served by dealership sites outside that area the more likely a SSNIP by a hypothetical monopolist in that area would be unprofitable, and therefore the more likely the geographic market should be broadened. However, as with the pump-out data, the pump-in data record customer flows at current prices and are, therefore, likely to understate customer flows in response to a SSNIP.

## 3.2 Geographic markets based on catchment areas are at least the Newcastle (and Central Coast) and Brisbane regions respectively and are likely to be wider

The pump-out data can be used to construct catchment areas around APE dealer sites in the Newcastle and Brisbane regions respectively. For dealers in the Newcastle region, the pump out data suggest that the catchment area includes at least Newcastle and the Central Coast and is likely to include Sydney, after excluding some sales that might be considered "outliers".<sup>15</sup> The catchment area for Brisbane dealers encompasses at least the Brisbane region and is likely to include nearby urban centres, such as the Gold Coast and Sunshine Coast.

The pump-out data for the Newcastle and Brisbane regions come from the Deloitte report. The Deloitte data cover all APE dealership sites in the Newcastle and Brisbane regions for which pump-out data are available, i.e. 13 and 9 dealership sites respectively.<sup>16</sup> Broadly speaking, of the Newcastle region dealership sites, six are located in the centre of Newcastle, five are located in Cardiff and two are located in Rutherford/Maitland area. The Brisbane region dealership sites, meanwhile, are generally located in central Brisbane, with the exception of Kedron Subaru, located in the northern suburb of Kedron. For each dealership

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<sup>13</sup> See, for example, ACCC, *Merger Guidelines*, 2008, paragraph 4.27, which *inter alia* lists as an important factor when considering the relevant geographic market the following (emphasis added): "*records relating to trade flows and the actual movement of customers and/or suppliers between geographic regions, especially related to changes in relative prices across regions in the recent past.*"

<sup>14</sup> Since these data are reported by manufacturers, these are based on sales of the same marque, so car sales in a PMA by dealers located outside that PMA will not be considered if the cars are of a marque that is not sold by the dealer whose PMA it is.

<sup>15</sup> See section 2.2 above.

<sup>16</sup> See page 5 of the Deloitte report for the names of those APE dealership sites in the Newcastle and Brisbane regions that were excluded from the study on the basis that the data were not available. Equivalent AHG dealership data is unavailable.

site, the Deloitte pump-out data are generally based on the latest available YTD sales of new vehicles.<sup>17</sup>

For our analysis of the Deloitte pump-out data, we use the pump-out data that exclude sales of demonstration cars. This is because these sales are registered at the dealership site in which they are stocked (i.e. they are recorded as sales within the PMA), regardless of the location of the customer they are ultimately sold to.

The results of our analysis of the Deloitte pump-out data for Newcastle dealer sites are summarised in Table 1. Reading from left to right, the columns show a dealership site's share of sales that come from progressively broader areas. These areas are the dealership site's own PMA, the Newcastle region, the Newcastle region and the Central Coast, and, finally, the Newcastle region, the Central Coast and Sydney. The table shows that the Newcastle region dealership sites' sales to customers within their PMA accounts for only a small proportion of sales, and that the majority of sales are within the Newcastle region and Central Coast (around 76%) and the Newcastle region, Central Coast and Sydney (around 87%).

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<sup>17</sup> For the vast majority of dealership sites the data cover January-September 2018 or January-December 2018. The two exceptions are Cardiff Hyundai (Newcastle region), Kloster Mitsubishi (Newcastle region) and Metro Ford (Brisbane region), for which the data cover January-February 2019, April-September 2018 and January-February 2019 respectively.

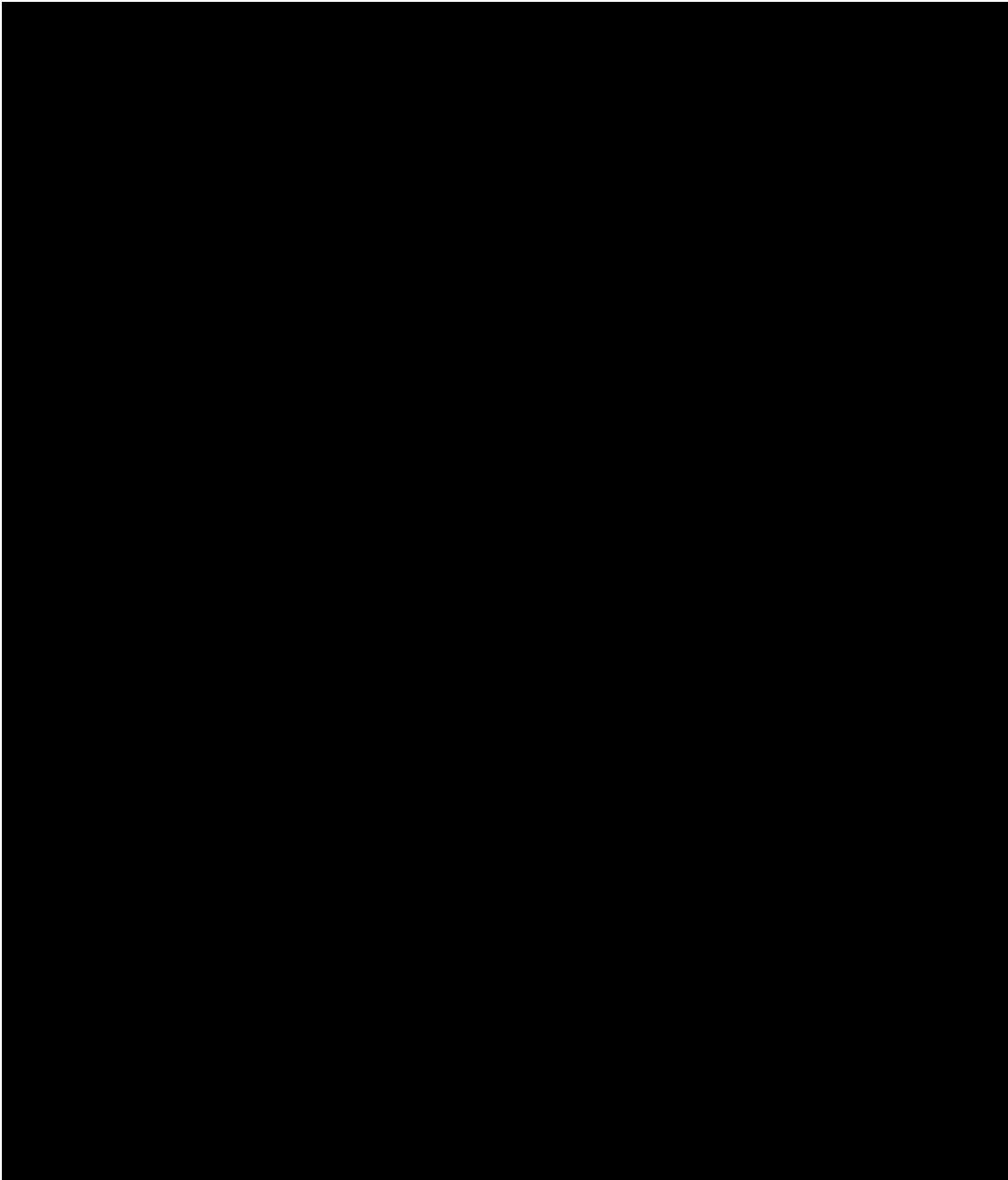


Table 1 shows that only a small proportion of a dealer's sales come from within its own PMA, on average 48 per cent. The proportion of customers from within the Newcastle region is 70 per cent on average, and this is 76 per cent on average after including the Central Coast. After including the Sydney, the extended catchment area captures 87 per cent of all sales on average.

Customers in Sydney are likely to buy from dealers in Newcastle given that the drive time involved is around two to three hours (and one to one and a half hours from the Central Coast).<sup>18</sup> This drive time is unlikely to be prohibitively high given the portable nature of cars, the small size of fuel and other costs compared to the potential saving from buying a car from

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<sup>18</sup> The drive time between Newcastle and Sydney, departing at midday on a Saturday, was estimated by Google Maps on 16 April 2019 to take "typically 2 h – 2 h 50 min". The drive time between Central Coast and Sydney is "typically 1 h – 1 h 30 min" again at midday on a Saturday.



further afield, and the ability to search for car prices in advance using price comparison websites.<sup>19</sup> Further, we understand that customers can have a new car delivered to a dealership closer to their home, which would mean that they would not have to incur the drive time cost of travelling from Sydney to Newcastle if they chose to buy from a Newcastle-based dealer site.<sup>20</sup>

The Deloitte pump-out data for the Brisbane dealer sites are presented in Table 2. The table shows the proportion of sales to customers within the dealer's PMA and within the Brisbane region respectively. Data on sales outside the Brisbane region (such as to the Gold Coast and Sunshine Coast) were not available. The table shows a similar pattern to the Newcastle dealer sites, with only a small proportion of sales from within the PMA and the majority of sales coming from within the Brisbane region.

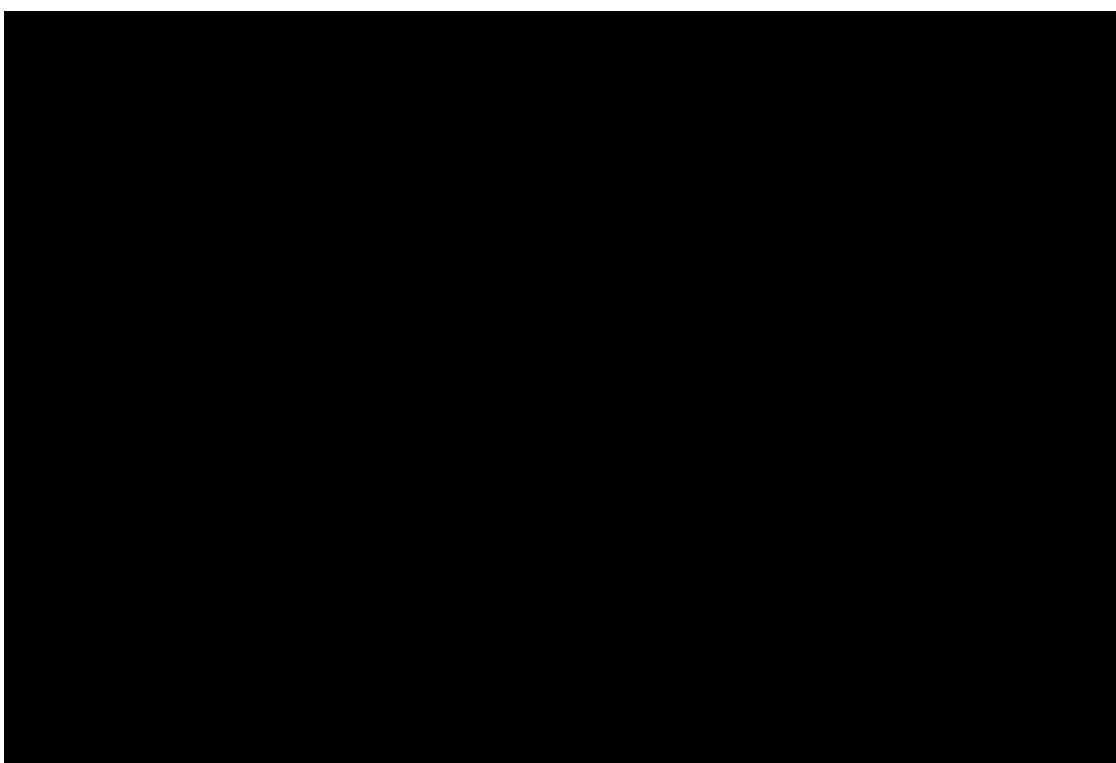


Table 2 indicates that on average only 41 per cent of a dealership site's sales come from within its PMA for the Brisbane region. On average, dealership sites make 85 per cent of their sales from within the Brisbane region. The substantial sales of around 15 per cent to customers outside the Brisbane region is likely to be due to similar factors to those discussed above, notably the relatively short drive time to nearby urban centres, the ability of customers to obtain price information online before they visit dealers, the low size of transport costs relative to the value of the car, and the fact that customers may be able to arrange for a car purchased at a further away dealer to be delivered to a nearby dealer for them to collect.<sup>21</sup>

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<sup>19</sup> AP Eagers, 'Acquisition of Automotive Holdings Group Limited by AP Eagers Limited: Merger Authorisation Application', 23 April 2019, pp. 56-59.

<sup>20</sup> AP Eagers, 'Acquisition of Automotive Holdings Group Limited by AP Eagers Limited: Merger Authorisation Application', 23 April 2019, pp. 56-59.

<sup>21</sup> AP Eagers, 'Acquisition of Automotive Holdings Group Limited by AP Eagers Limited: Merger Authorisation Application', 23 April 2019, pp. 56-59.

While we do not have data for pump out sales to the Gold Coast or the Sunshine Coast, being the next closest urban centres to the Brisbane region, we would expect these to be the areas that would account for the next largest share of customer flows. Indeed, the Gold Coast and Sunshine Coast are only roughly one to two hours from Brisbane.<sup>22</sup>

### 3.3 The pump-in data support broader local market definitions than might be suggested by catchment areas alone

The issue with a catchment area analysis is that it does not tell us how customers would respond in response to a SSNIP, which is the key question when applying the hypothetical monopolist test (as discussed in section 2.1). The pump-in data inform us the proportion of customer sales that are from outside the Newcastle and Brisbane regions respectively at current prices. The fact that we already observe a substantial proportion of customer purchases from outside the Newcastle and Brisbane regions at current prices, suggests that we are likely to observe even greater purchases from outside these regional following a SSNIP. This in turn suggests that a SSNIP may be unprofitable. Even the loss of a small volume of sales could mean that dealers no longer meet volume targets and thereby lose associated payments, which in turn could make the SSNIP unprofitable.<sup>23</sup>

The pump-in data analysed by Deloitte cover the same 13 Newcastle region dealership sites and 9 Brisbane region dealership sites as for the pump-out data, and cover the same time periods.<sup>24</sup> The data show purchases by customers located within one dealership site's PMA (for example, customers within a Newcastle region dealership site's PMA) from other dealership sites (such as dealership sites in Sydney).<sup>25</sup> We use these data to show where customers in the Newcastle and Brisbane regions respectively purchase cars from at current prices. The data show that customers in the Newcastle and Brisbane regions respectively are already buying outside those regions. In response to a SSNIP (i.e. a 5 to 10 per cent price increase in the Newcastle or Brisbane region respectively), we would expect a greater number to purchase from locations in other cities (such as customers in the Newcastle region buying from dealers in Sydney). This could make the SSNIP unprofitable and show that the relevant geographic market is broader than the Newcastle or Brisbane region respectively.

Similar to our approach to assessing the pump-out data, the pump-in data excluding the volumes of registered demonstration cars are relied upon to avoid artificially overstating the number of purchases by customers from dealership sites in the same PMA. This is because demonstration car sales of a dealership site within the PMA are registered to that dealership site, and, therefore, are registered within the PMA regardless of the customer's address.

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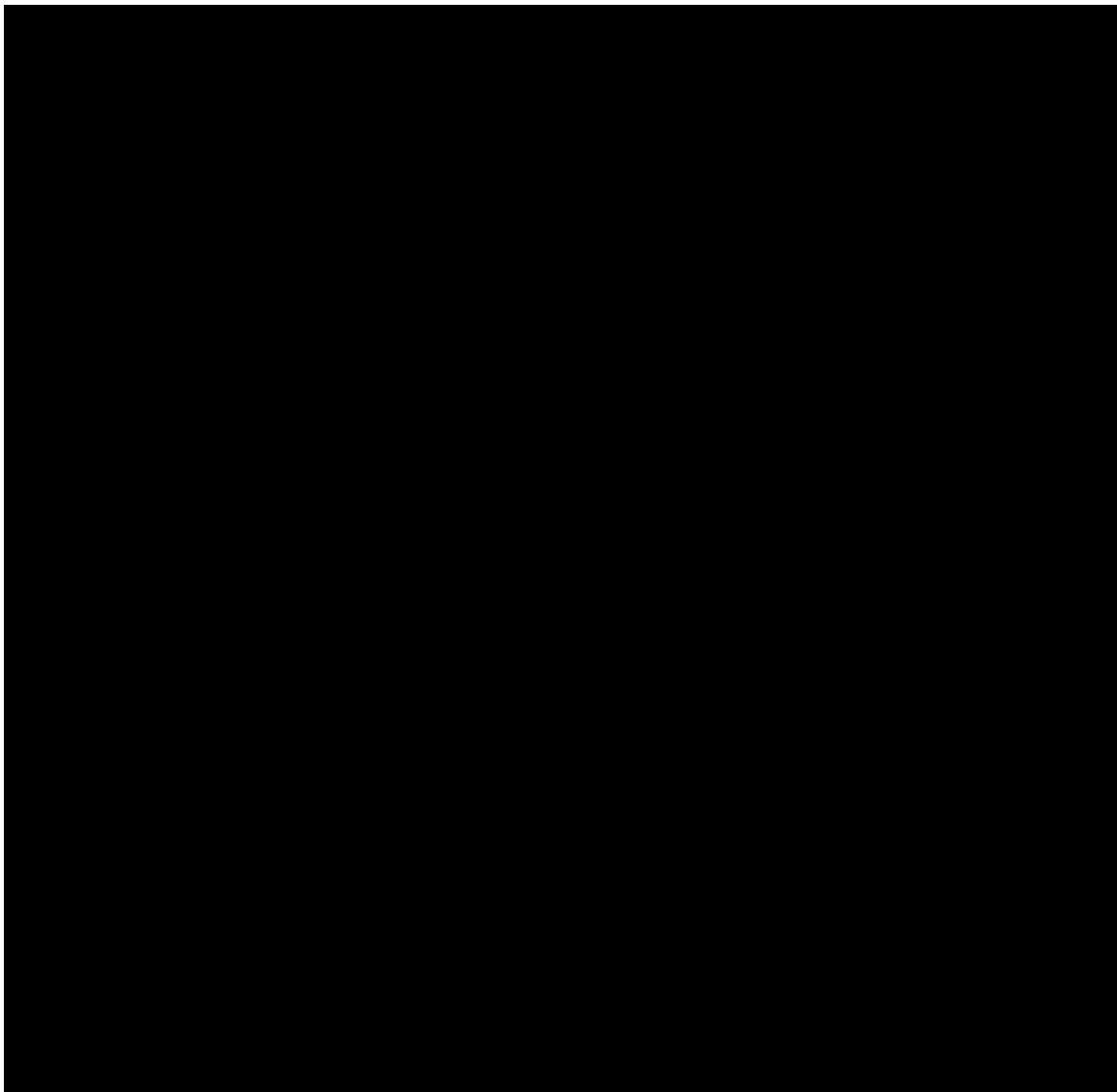
<sup>22</sup> The drive time between Brisbane and Gold Coast, departing at midday on a Saturday, was estimated by Google Maps on 16 April 2019 to take "typically 1h – 1 h 25 min". The drive time between Brisbane and Sunshine Coast was estimated to take "typically 1h 20 min – 2 h".

<sup>23</sup> AP Eagers, 'Acquisition of Automotive Holdings Group Limited by AP Eagers Limited: Merger Authorisation Application', 23 April 2019, pp. 32 and 36.

<sup>24</sup> For the vast majority of dealership sites the data cover January-September 2018 or January-December 2018. The two exceptions are Cardiff Hyundai (Newcastle region), Kloster Mitsubishi (Newcastle region) and Metro Ford (Brisbane region), for which the data cover January-February 2019, April-September 2018 and January-February 2019 respectively.

<sup>25</sup> Equivalent AHG dealership data are unavailable.

Table 3 shows the Deloitte pump-in data for Newcastle region dealership sites, having apportioned any “Not Identified” sales between regions outside the Newcastle region in proportion with their shares of sales.<sup>26</sup> It shows that consumers in the Newcastle region purchase from regions outside the Newcastle region.



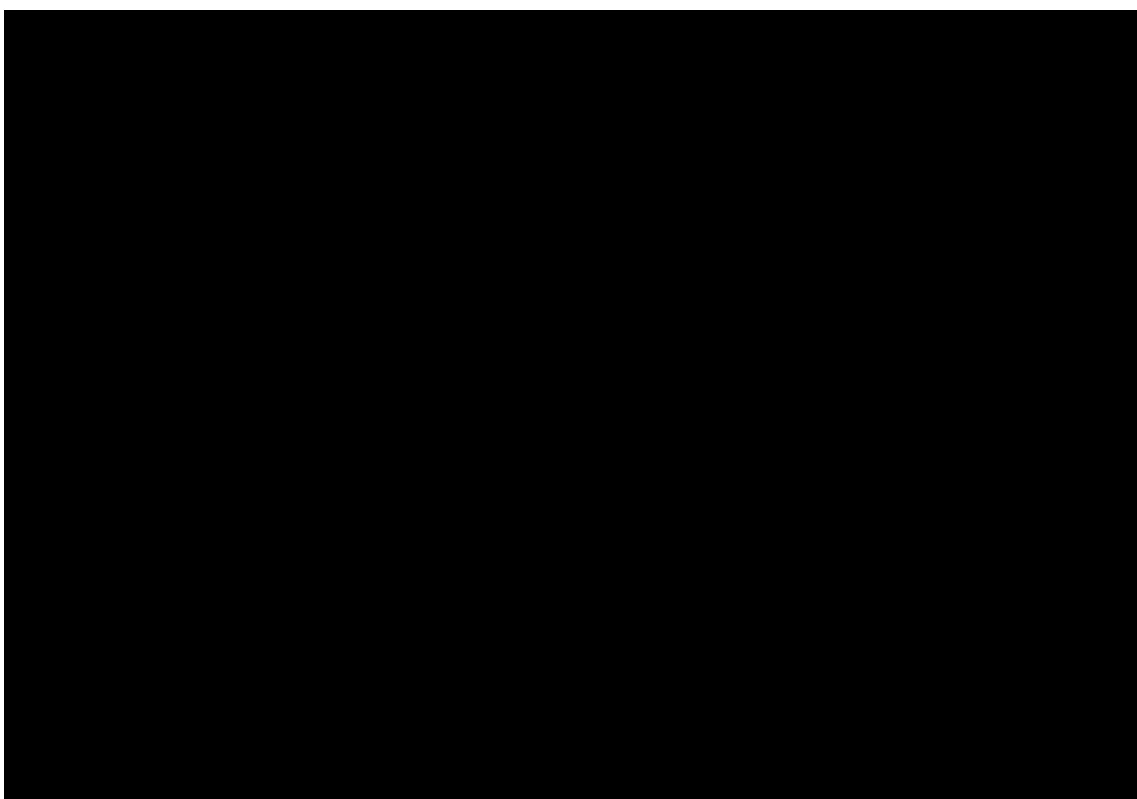
As shown in Table 3 above, on average, 21 per cent of consumers in a Newcastle region-based PMA purchase their new car from a dealership site located outside of the Newcastle region. This shows that customers are already willing to travel outside the Newcastle region at current prices, and so if relative prices in the Newcastle region were to increase by 5 to 10 per cent, the customer flows to dealers outside the Newcastle region may be large enough to make the SSNIP unprofitable. If this were to be the case, this in turn, would suggest that the geographic market should be broadened to include areas outside the Newcastle region.

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<sup>26</sup> We understand that the “Not Identified” sales reported in the Deloitte report come from unidentified PMAs that, on an individual basis, count for a very small share of sales and are therefore very unlikely to come from the Newcastle region.

Table 3 also shows that, on average, 10 per cent of customers in a Newcastle region PMA purchase from Sydney. This is likely to be due to the relatively short drive time between Newcastle and Sydney, the ability of consumers to compare prices online before they buy, the relatively low size of transport costs compared to the value of the car, and the ability of customers to have a car purchased at a dealer in Sydney delivered to a dealer closer to them in Newcastle (see section 3.2 above).<sup>27</sup> If a hypothetical monopolist of dealership sites in the Newcastle region were to impose a SSNIP of 5 to 10 per cent above current prices, then if enough customers travelled to Sydney to make the SSNIP unprofitable, the market should be widened to include Sydney.<sup>28</sup>

Table 4 shows the Deloitte pump-in data for the Brisbane dealership sites. They show that Brisbane region customers currently purchase from dealers outside the Brisbane region.



As shown in Table 4 above, on average 13 per cent of customers in the Brisbane region buy a car from a dealer outside the Brisbane region. This shows that some customers are willing to travel outside the Brisbane region to buy a car at current prices. This is likely to be due to the relatively short drive time between Brisbane and nearby urban centres, such as the Gold Coast and the Sunshine Coast, the ability of consumers to compare prices online before they buy, the relatively low size of transport costs compared to the value of the car, and the ability of customers to have a car purchased from a dealer further away delivered to a dealer closer

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<sup>27</sup> AP Eagers, 'Acquisition of Automotive Holdings Group Limited by AP Eagers Limited: Merger Authorisation Application', 23 April 2019, pp. 56-59.

<sup>28</sup> Technically, the market may first be widened to the Newcastle region and Central Coast. If a SSNIP across dealer sites in both these areas is still unprofitable, because of customers purchasing in Sydney instead, the market would then be widened again to include the Newcastle region, Central Coast and Sydney. The SSNIP test would then be applied to this wider market to test whether it is a relevant market.

to them in Brisbane (see section 3.2 above).<sup>29</sup> If a hypothetical monopolist of dealership sites in the Brisbane region were to impose a SSNIP of 5 to 10 per cent above current prices, then if enough customers were willing to travel to areas outside the Brisbane region so as to make the SSNIP unprofitable, the market should be widened to include those other areas.

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<sup>29</sup> AP Eagers, 'Acquisition of Automotive Holdings Group Limited by AP Eagers Limited: Merger Authorisation Application', 23 April 2019, pp. 56-59.