

Submission to the Australian Competition and Consumer Commission (ACCC)

[Restriction of Publication of Part Claimed]

A.P. Eagers Limited application for merger authorisation MA1000018

Submission:

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] an Independent Car Dealer in Queensland

Date of submission:

15 May 2019

Submission

1. Competition in the Automotive Industry for New Car Retailing would substantially lessen if the proposed merger between AP Eagers & AHG's were to go ahead. These are already two of the biggest Automotive retail groups (if not *the* two biggest), and have been for some time. Both groups have also been on the 'acquisition trail' (ie. buying up car dealerships) for quite some time, buying up smaller independent dealers. This in itself means less competition between dealerships and a worse outcome for consumers. If the merger goes ahead, they will close more dealerships. This means less choice for consumers and less competition in the market from other independently owned, non-AP Eagers & non-AHG dealers. Eagers has admitted it will close dealerships as it seeks to rationalise and relocate some services to the Brisbane Airport's Auto Mall. This same model is also happening in Essendon Fields in Melbourne (<https://ef.com.au/community/about/ef-auto/>, near the airport as well). By way of example of the impact this has on independent dealers, the Essendon Holden dealer said he was essentially forced by Holden to relocate to Essendon Fields because so many other car brands were located there (Mazda, Toyota, Ford, Hyundai, etc) and if they weren't in that same area, they wouldn't be on customer's shopping lists. However, it was almost impossible to do business at the site because major groups (in this case, Linfox & Beck Corporation) owned the long-term lease on the land and could therefore set the price of the rent to be paid by competing dealerships. I believe in Essendon Holden's case it was around \$70,000 per month (approx.). So you have a very strange model being created that concentrates the car buying market in big groups' favour, where a competitor could potentially own the land you're doing business on. That reduces your ability to compete as an independent dealer and impacts consumers negatively by having higher fixed operation costs (that must be covered and passed on in some form). This 'Auto Mall' style model is sold as giving consumers more 'choice', but it has anti-competitive effects as well on the overall market.
2. Parts distribution costs would rise. AP Eagers has recently invested millions into a new Parts Distribution centre in Eagle Farm. Because of the scale they offer, they can cut sweetheart-deals with OEMs (Car Manufacturers) that other independent Direct & Retail parts dealerships do not have access to. What this means is that

other dealerships cannot compete on an even playing field, and this market concentration will mean higher prices have to be passed on to consumers down the line. For example, Eagers could potentially negotiate a parts distribution deal with GM Holden (or any other manufacturer) where they buy X number of parts for Y Cost Price with a 30% margin left in it if sold at Retail prices. Other dealerships cannot access these same prices and thus have less margin to work with when selling that part to a Retail end customer. A Retail Dealer might only be able to buy from a Direct Dealer (such as Eagers) at Cost Price + 20% margin because Eagers takes that 10% cut as a Direct Dealer when wholesaling that part out to other Retail Dealers. This means less profit available for non-Eagers businesses, and thus higher prices having to be passed to consumers. These deals are also not transparent to the market and do not take place in the open market. They happen between large automotive groups and Manufacturers behind closed doors.

3. New car servicing costs would rise. Such a large group could essentially set minimum prices across multiple manufacturers and across multiple sites. This means less competition between dealerships, because they'd all have the same owner. Customers normally will travel approximately up to an hour or 100km to purchase a new car (as a once off, they may travel), but they normally service their car closer to home. This means less service competition overall for consumers as dealerships don't have to compete as strongly against other dealers to win business.

Other background reading that may be of interest regarding the merger.

1. A recent article in The Courier Mail dated April 26, 2019. Title: **AP Eagers to sell three inner city sites as it makes expansion plans and moves to relocate to Brisbane Airport's Auto Mall.** Link: <https://www.couriermail.com.au/business/prime-site/ap-eagers-to-sell-three-inner-city-sites-as-it-makes-expansion-plans-and-moves-to-relocate-to-brisbane-airports-auto-mall/news-story/126d05401da0aaf777e31dd7baf2bdf6>

Key takeaway quotes: "AP Eagers has secured 64,124sq m within the state-of-the-art automotive retailing precinct, strategically located at the Brisbane Airport. We will relocate a number of dealerships to the Auto Mall to provide a truly unique and world class customer experience."

"Mr Ward said the sale of the three properties will generate a profit before tax of \$24 million. The profit will be recognised over the seven-year lease term with an annual profit contribution of \$3.4 million."

2. A recent article in Go Auto News Premium (an Industry focused publication) dated March 5th, 2019. Title: **Eagers reveals future 'hybrid dealership' model: Group sees reduced costs and massive sales growth as it prepares for next 50 years.** Link: <https://premium.goauto.com.au/eagers-reveals-future-hybrid-dealership-model/>

Key take-away quotes: "I might add that means we are not going to be at Newstead. Now we are going to be at Newstead for the next 10 years – not for all of the brands but for some of them.

Don't assume we are going to be out immediately. The airport will not be finished until 2025. We don't get the land until December 2020. We will move in in December 2021 and we will have completed everything by 2025.

This is not a five-minute journey. We agreed the (airport) deal two years ago."

“We have a Holden dealership in Windsor in Newmarket Road. There is no way that is going to remain a single Holden dealership. That is likely to end up having four or five boutique showrooms with maybe three or four service bays behind those boutique showrooms.”

3. A recent article in the AFR dated August 8, 2018. Title: **A.P. Eagers sells Woolloongabba dealership sites in Brisbane** Link: <https://www.afr.com/real-estate/ap-eagers-sells-woolloongabba-dealership-sites-in-brisbane-20180807-h13nxx>

Key take-away quotes: “One of the largest motor vehicle dealerships in Australia, A.P. Eagers, has sold two prime Woolloongabba dealership sites in Brisbane's CBD for \$15.65 million in off-market transactions.”