Record of oral submission to the Australian Competition and Consumer Commission (ACCC)

Restriction of publication claimed in part – shaded material to be excluded

A.P. Eagers Limited application for merger authorisation MA1000018

Submission: [redacted], a former dealership owner

Date of submission: 3 July 2019

Background

[redacted]

Importing and OEMs

- The overseas OEMs decide what vehicles to build for Australia based on orders from the local operating company. There are unique ADR design rules for Australia meaning that vehicles built for other countries may not be built to comply with Australian standards specifications and vehicles built to Australian ADR specifications may be too expensive for other markets such as certain Asian or poorer countries. For example, vehicles built for Australia tend to be heavier because of the requirement of added safety features such as door and other side intrusion bars etc.
- Because a car or SUV or light commercial vehicle will be purposely built for Australian ADR compliance, it needs to be sent to Australia and the local operating company needs to sell it through its national network of franchised dealerships.
- A vehicle has to be paid for by the importing local operating company when it reaches Australia, with some paid for FOB at time of shipment depending on intercompany contractual arrangements.
- There is probably around 7 days to up to 2 months average slower moving inventory in OEM local stocks.

Dealership operation

- A salesman just wants to sell a vehicle so that they get their personal commissions and or sales incentive bonus based on the deal they sign up that is acceptable to dealership sales manager. Typically the salesperson doesn't care about corporate overall dealership profit as it is beyond their control or influence.
- Owners/Dealer Principles will not disclose the hold-back or certain dealership confidential bonus incentives to the front line sales people. This is always kept for the dealership to help cover the high overheads of keeping the doors of the dealership open.

- Manufacturers frequently use mystery shoppers to ensure the dealerships are professionally compliant and selling vehicles within the manufacturer's policies, procedures and terms and conditions of the dealership's franchise agreement and KPI's.
- Manufacturers debit the dealership's bank account or floor plan financer when a vehicle is loaded and despatched to a dealer.
- A dealer's used car department or a used vehicle in-house wholesale valuer operates as a profit sub-centre themselves. May retain trade-in for stock or place it with another "motor vehicle trader" or wholesale at auctions as the wholesale valuer must recover the cost and or make value on the amount allowed or paid for the used vehicle traded or bought.
- Revenue from a traded in vehicle is counted as profit or loss for the new vehicle sales arm of the dealer. Profit is the difference between what was allowed or paid for the used vehicle and what its wholesale value is – may be on-sold to a vehicle trader or wholesaler or via the dealership's own used car business.
- The pre-delivery check is generally done by the same company that adds the ADR local compliance items and plates (as may be applicable to the imported new vehicle) or the pre-delivery is carried out by that importer's specialist contracted third party. Where pre-delivery is done in bulk it is cheaper. This gives the dealer added marginal margin from the dealer delivery charge and helps compensate the dealerships "on roads" and other delivery related incidental costs.
- Dealers make margin on OEM and after-market accessories: towbars, bull bars and canopies, window tinting, etc. The level of margin depends on the dealership's parts department OEM status and its purchasing contracts with after-market suppliers.
- Country dealers will often get the after-sales fixed price servicing, warranty and repairs even if they lose the sale of the new vehicle. They rely on used vehicles, retail and trade parts, repairs and servicing from retail, fleet and government vehicles to make money over the vehicles subsequent life with the new owner.
- Dealers know that if their PMA (prime market area) is pumped into, they are likely to still get the warranty, after-sales servicing and aftermarket work for that vehicle.

Bonus structures

- Manufacturers typically offer monthly hold-back. This is a bonus that varies but is typically of the order of [redacted] (or more for certain models/makes) that is paid to the dealer in arrears after registration of the vehicle. It is paid as a means of the manufacturer contributing towards the operating and facility costs of the dealership. The level varies depending on the manufacturer.
- For dealerships operating in high rent locations, such as inner Sydney, Brisbane or Melbourne, hold-back may on a case-by-case basis be increased to incentivise / compensate them to continue to operate and not surrender the site to development.
- Individual vehicle model specific bonuses can vary from anything from $500 (or less) to $5,000 (or more) depending on the RRP price points and volume of units the manufacturer needs to move.
- Manufacturers may offer conquest sale bonuses – extra say up to $1,000 or so to get a large corporate national customer fleet volume deal involving significant trade-in's and or lease payouts on trade-ins together to get a large customer to switch vehicle manufacturer brands. This mainly applies to fleets. Can happen for larger private

fleets, but rare. In consultation with dealership, at the discretion of Manufacturer's national or regional or state sales manager as may be applicable.

- If a dealer in a PMA is not doing well because of strong competing TV or other advertising from another brand, the manufacturer may subsidise the affected dealer/s on a case-by-case basis based on what the dealer/s are expected to sell.
- Manufacturers may also offer other necessary bonuses or incentives as part of their sales campaigns from time to time.
- Anything related to bonus and manufacturer sales campaigns is franchise confidential and not typical known to consumers or other 3rd parties.
- KPI's / Benchmarks/ targets are set at the manufacturer's OEM local head office. State sales managers have a reasonable degree of discretion.
- Manufacturers will give bonuses typically to clear previous year plate stock that remains unsold in manufacturer or dealership inventory.

Selling

- Customers are pretty savvy. Check online, research internet and grey websites, brokers, visit dealers.
- Everyone has a different approach to responding to online and telephone enquiries. A dealer will generally quote RRP based on "drive-away, no more to pay". A dealer will tell the customer to come in and see what they can do and to assess and value their trade-in as a "changeover" price. Dealers can use all types of techniques to get them in. Others won't give a price over the phone, but will say 'come in and we'll see what we can do'. They will do whatever they can to get the consumer into the dealership.
- If a vehicle is sold at RRP, which is very rare, the profit margin (depending on make, model, luxury and non-luxury) would be around [redacted] plus margin on accessories. This figure includes any bonus, but not the hold-back. This margin would be on the RRP exclusive of GST, on roads, registration and stamp duty.
- Consumers will travel to get a better deal and still service with their local convenient local PMA dealer
- The amount of trade-ins has changed since carsales.com came along. Used prices are distorted by red and blue book – not a true and fully accurate reflection of what a vehicle trades in or sells for – used by insurers to justify lowest write off payment or insurable value.
- Smaller dealers are unlikely to fight against pump in from Sydney as they know they will get the after sales service, warranty and parts business. A lot of country dealers accept loss of new vehicle initial sale to bigger dealers, but are happy to get the after sales, warranty and other repairs and servicing.
- Due to parent OEM pressures, local importer Manufacturers may add higher bonuses to push market share when local wholesale inventory levels rise. May be up to $400-$600 or more depending on circumstances.
- OEM Manufacturer approaches to bonuses are not fixed, but based on market trends and penetration, pipeline etc. If over-supply of unsold stock – in inventory or bond stores – an OEM manufacturer may offer bigger bonuses. Bonuses are not static – moves and adapts according to market place trends and related factors. Regional sales managers have discretion if there is any PMA area facing difficult circumstances beyond the control of the dealer. Sometimes an OEM Company will

offer additional bonus / incentive. I.e. if new model hasn't taken off in Australia and there is a backlog of unsold stock.

- DP will set approaches and policy to discounting and will control everything so as to be as financially sustainable as is possible. They will set parameters that a salesperson can negotiate in. Will include a portion of sales person performance bonus.
- Dealerships use dealership customised deal sheets to gross up a deal on completion. Financial template. They include all information and sales related transactions relating to a deal. Invoiced cost of vehicle, on-roads, trade-in allowances and accessories, level of discount etc. All margins and bonuses go to internal office finalisation or deal sheet and this is what salesperson is paid their commissions/ incentive's on. Sales manager also paid a marginal incentive on their sales departments team overall result.
- Another area of dealership (non-sales department) income is via oil company deals and agreements. Oil companies provide (or finance) workshop hoists and other equipment, pumps, tanks etc. and give dealership personalised lube stickers and a rebate on purchases. There is also a reasonable mark up on oil to offset the storage and waste recovery and disposal of all the old used oil.

Parts distribution

- If a country dealer needs an OEM part, distributor dealers will have trucks or contracted transport going around PMA regions every day, delivering parts. All OEM franchise parts and accessories have a parts pricing matrix code. The master OEM parts file record layout includes various prices and price points. (excluding GST) I.E. – Visibility depends on dealership parts classification. Generally, as applicable are included the part or accessory recommended list price, recommended trade price. Dealer daily order price or stock order price (if ordered in advance and kept in storage). Wholesale prices to distributors - Stock order price may be say [redacted] below the dealer daily order price. This acts as an incentive for distributors to order in bulk and keep three to four months' stock cover on site. For emergency inter dealer or trade parts sales, the franchise parts dealership who is a distributor will typically (subject to brand OEM policy) be reimbursed monthly in arrears for the cost of inter-dealer or trade urgent parts freight being the difference between the retail parts dealer order and large dealer stock order price. It is also to get the customer's vehicle needing a captive or warranty part quickly back on the road instead of waiting say up to three days to get the needed part from the OEM parts warehouse.
- Parts distributors will have a lot of other dealers buying from them. They are incentivised to supply as many as they can. Margins are tight so typically parts distributor can't afford to discount. Distributors try to compete on service delivery to get any needed part to dealer or trade customer faster than the OEM. A distributor dealer gets the difference between daily order and stock order price as compensation to carry the larger inventory and to service the trade and retail dealers.
- Parts distributors compete with their OEM as well and often have better and more efficient and agile distribution systems, processes and service responses.
- Some OEM manufacturers use common vehicle build platform mechanical and service parts across different models and brands, including luxury and non-luxury brands. They won't let the dealer of one brand use other affiliated branded parts, even though they can fit or are identical, except for the brand, price and box.
- Many smaller dealerships by private arrangements may stock OEM parts and accessories on a consignment basis – inventory is owned by the distributor and the

small dealer pays when sold and replenished. This offers significant parts obsolescence protection savings to a small dealer and optimum parts margin % retention.

- If the franchise part dealership distributor stopped supplying on consignment, smaller dealers would then go back to daily order margins on an as needed basis and earn less margins for a higher COGS cost unless they increased parts stock inventory and ratio of stock order purchases from OEM.

Used cars

- Consumers looking to buy a new car generally wouldn't consider a used car but may consider buying a Demo model if the discount is sufficient. However, with the bonuses and discounting available at the moment a consumer could generally buy a new car for a similar price to a Demo model that only retains balance of new vehicle warranty. A consumer wanting a new car may look at a late model, low mileage used car with the balance of new car warranty. They would be unlikely to consider anything that had done high mileage or was soon to be out of manufacturer warranty.
- Generally a new car buyer wants the experience and certainty of a new car. They won't know why a used car was traded in and may be concerned that it has or had problems.
- **Proposed acquisition**
- There are certain big Sydney dealers in each OEM brand that pump in big volumes into the Hunter Valley and adjoining regions because of big targets and ruthless Sydney competition within dealer networks. But Hunter Valley and regional NSW people will still have the new vehicles of that brand serviced locally for after sales service, repairs and warranty.
- I believe on balance some OEM manufacturers may be opposed to the merger because they don't want a national dealer group with increased bargaining power. Really OEMs will be the only ones affected. After all, the proposed merged entities of AP Eagers and AHG would have 229 new car dealership locations and 68 new truck and bus dealerships in Australia. On my calculations this would only equate to approximately 11.9 per cent of new car dealership market in Australia. This provides the logic and benefits for bringing the two groups together.
- I believe there is no disadvantage to the consumer or small dealership in the proposed merger as the merged entity will not have the ability to control the market. There are too many players and competitors
- High operating costs of proposed merged or large private group dealerships act as deterrent from lowering prices.
- I see economies from merger in significantly reducing administration, IT, consolidation of backroom activities in the merged entities and corporate management and training costs.