



Record of oral submission

Matter name	Graco Australia RPM Notification
ACCC parties	David Hatfield, Jaime Martin, Gemma Smith, and Michael Thrower
TRACKIT No	RPN10000461
Other parties	Hempel (Wattyl): Matt Crossingham (Managing Director) Kellie Sullivan (Category Manager, Commercial)
Date	Thursday, 8 June 2023
Time	10am
Phone to <input type="checkbox"/> Phone from <input type="checkbox"/> Meeting <input checked="" type="checkbox"/> Other <input type="checkbox"/>	

The ACCC requested the meeting with Hempel (Wattyl) to discuss the likely impact of Graco Australia’s resale price notification and the sale of paint spraying equipment more generally. The following issues were discussed:

Background – overview of Hempel’s business

Hempel (Wattyl) Australia (previously Wattyl) is a paint retailer and has been supplying paint since 1915. It has 104 stores across Australia.

Hempel also sells paint spraying equipment (predominantly to professional tradespeople) and other painting accessories, but paint sprayers represent a very small proportion of overall sales revenue. Of its non-paint volume, paint sprayers are about 17% of revenue.

Around 75% of Hempel’s retail stores across Australia sell paint spraying equipment – both Wagner and Graco. Over half of Hempel’s sales in paint spraying equipment are Graco sprayers.

Hempel sells paint online and have limited presence online in 6 stores in Sydney only.

Hempel advised that paint sprayers sold within its stores range from \$2000 to \$10 000.

Paint sprayer market

Hempel stated there are two main paint sprayer brands in Australia – Graco and Wagner.

Hempel considers the two brands have similar features and there is no need for it to try to explain or demonstrate the differences to customers. It observes that customers have strong brand loyalty, even when promotional offers or special deals are available for the other brand. Hempel considers this might be because once you are familiar with how your brand of equipment works (including ongoing maintenance), contractors are keen to stick with what they know.

Hempel noted that Graco has a larger share of the contractor segment of the market, while Wagner is more dominant in the 'DIY segment'. Hempel stated that a big range of Wagner 'DIY' paint sprayers are currently stocked across Bunnings stores.

Hempel submits that paint sprayers are predominantly used to paint new homes and for commercial jobs. Labour is the highest cost component of any paint job. Using paint sprayers generates significant productivity gains for contractors. Hempel considers that traditional brush and rollers are and will largely continue to be used to paint existing homes, to avoid getting paint on furniture for instance.

Online discounting and pricing

Hempel considers some customers make their purchase decisions based on price, while others base their purchase decision of service offering. Hempel's focus is on distinguishing itself by its service offering.

With regards to online discounting, Hempel submits that it seeks to remain competitive but generally won't 'price match' online prices if it erodes its own margins below commercially sustainable levels. This is assessed on a case by case basis.

Regarding the potential 'free rider' problem, Hempel considers you cannot retain every customer that enters your store, and this is not unique to paint sprayers. It notes that Hempel staff can invest a lot of time with paint customers (for example, working through colour charts) who may ultimately leave the store and purchase paint at another retailer.

Sales process and services

Hempel considers that most of its professional trade customers have already conducted research about what spray equipment they want before they come into the store to purchase. In Hempel's experience, most tradespeople prefer to purchase in store, and will often seek to upgrade their equipment during special promotion periods – for example, end of financial year sales.

Hempel submitted that it has not heard 'significant noise' about tradespeople turning to online purchases for spray equipment.

Hempel advises that 2 of its (104) stores have service centres for paint spraying equipment. Hempel noted there are many service agents for Graco paint sprayers, which charge for maintenance and repair services (if the equipment is not under warranty).

Hempel currently displays spray painting equipment at the rear of its stores where possible, and keeps limited floor stock on display. Hempel noted that theft of spray equipment is a problem they face.

Graco's distributor program and training

With regards to Graco's distributor program, Hempel advised that it has no minimum stock obligations. While it has received some display shelving from Graco, it has not significantly invested in Graco displays.

Graco Australia offers an online training portal that Hempel staff use from time to time to learn more about Graco paint sprayers. Hempel considers it is Graco's role to educate Hempel's people and inspire them to learn more about Graco products. Hempel considers that Graco is not particularly proactive in this regard.

In the last 12 months, Hempel has conducted special trade events at its stores, and Graco staff have attended around 50 (out of 84) of these. Graco provides demonstrations of its equipment at these events.

Impact of the minimum advertised price (MAP) policy

Hempel considers the proposed MAP policy is not likely to have a large impact on its business. This is because it currently does not sell paint sprayers online, and the focus of its business is selling paint to professional trade customers.

Hempel considers it is unlikely to change its commercial strategies for paint spraying equipment, with or without the proposed MAP policy.