

Graco Australia Pty Ltd

Graco Australia Pty Ltd response to ACCC RFI dated 6 April 2023.

Graco Australia's distributor network and program

- | | |
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| 1 | <p>We understand from the notification that there are currently three categories of Graco Australia distributors in Australia – namely, 'Authorised', 'Specialised', and 'Advanced'. Each category receives a different discount structure and is required to meet certain objective requirements (relating to stocking commitments, maintaining technical capabilities for sale and servicing products, and turnover requirements) under Graco Australia's current distributor program. Please detail:</p> <p>(a) the complete discount structure and 'objective requirements' for each distributor category, including any pre- and post-sales service standards that Graco Australia currently imposes.</p> |
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There are three categories of distributors under the Graco Distributor Alliance Program (**GDAP**). These are:

- Authorised distributors;
- Specialised distributors; and
- Advanced distributors.

Authorised distributors

Authorised distributors are not significantly involved in the sale of paint sprayer products but are often associated with Graco in some other way (e.g., they sell other types of Graco products). An example of this is a business that sells line marking equipment for use on roads etc. This business will be focused on this type of equipment but may also sell paint sprayer product spare parts if and when required. These businesses are the lowest level of distributor for paint sprayers in Graco's GDAP system.

[CONFIDENTIAL]

Specialised distributors

The entry-level for distributors who sell paint sprayers (as opposed to having them as part of a different business focus) is specialised distributors.

This is the level that Graco uses for new distributors who are looking to begin selling Graco paint sprayer products. This approach allows new distributors to prove themselves and demonstrate their commitment to the brand before moving to the advanced distributor level. Distributors that sell a small volume (generally due to their geographic location) also fall within this level.

Specialised distributors need to meet at least three of the following requirements:

- Stocking a range of Graco paint sprayer products;
- Stocking genuine Graco spare parts;
- Offering servicing capability (this does not have to be within the distributor's premises although sometimes it is. Distributors can use other servicing centres provided they can demonstrate that customers' needs will be met);
- Having external facing sales staff (i.e., people on the ground that can discuss and demonstrate products for customers); and
- Be actively engaged in training (when a distributor becomes a specialised distributor, Graco

provides training to set the distributor up with the ability to ask questions or demonstrate the products appropriately. This is generally the starting point for distributorship and as set out elsewhere, training is ongoing).

Graco's district managers discuss these requirements with specialised distributors on an individual basis and are able to tailor these requirements to the size of the distributor, its geographic location, likely sales and other market context. This flexibility reflects the fact that specialised distributors are often growing their business or are in a regional area with smaller sales. In general terms, specialised distributors would be aiming to ultimately meet all five requirements.

[CONFIDENTIAL]

Advanced distributors

'Advanced' distributors are the top level of distributor. Advanced distributors make significant investments in the Graco brand, sell a wide range of products, and are regarded as 'full-service' distributors. They provide a full-service offering to customers, including by having external-facing salespeople, and strong service and repair capabilities.

Advanced distributors are required to meet all five requirements:

- Stocking a range of Graco paint sprayer products;
- Stocking genuine Graco spare parts;
- Offering servicing capability (this does not have to be within the distributor's premises although sometimes it is. Distributors can use other servicing centres provided they can demonstrate that customers' needs will be met);
- Having external facing sales staff (i.e. people on the ground that can discuss and demonstrate products for customers); and
- Be actively engaged in training.

[CONFIDENTIAL]

(b) how Graco Australia currently monitors and supports distributors to meet their 'objective requirements', including any pre- and post-sales service standards. Please include (without limitation) information about any instances where Graco Australia has become aware of a distributor not meeting Graco Australia's 'objective requirements' and the actions taken by Graco Australia in response.

Support

Graco has a team of six District Managers that visit distributors around Australia on a regular basis. These District Managers provide product training, merchandising assistance and marketing, and generally support distributors to develop good marketing and service models for Graco products.

Graco provides ongoing training to distributors to improve the quality of the pre- and post-sales service provided by them. Such training provides significant value to end-customers, reducing instances of equipment misuse and consumer miseducation in relation to Graco products. Ultimately, this promotes customer satisfaction, promotes repeat business, and ensures the competitiveness of Graco products in the marketplace. Training is provided to distributors through on-site team training, demonstrations, on-site projects and certification training.

There is a wide variety of training. For example:

- *Technical training*
Distributors are educated on the key features and benefits of Graco products in order to ensure

that they are able to identify the correct equipment for the consumer. Training is also provided on best practice for the installation and operation of Graco equipment, which may be used in a range of different ways depending on the context of its use. Training on installation and operation is necessary to ensure the safe, efficient and effective use of the airless paint spraying products, given these products involve the operation of high-pressure equipment. Training is also provided on the maintenance of Graco equipment, and how distributors may provide post-sales breakdown servicing to customers.

- *Sales and marketing training*

Graco provides distributors with general training in sales and marketing. This training facilitates the better identification of customer needs by distributor sales staff, as they are taught in how to properly educate, question and direct the consumer to the right equipment for their specific project. As a result, such training adds value to the consumer's experience of Graco products. Furthermore, distributors are trained on how to position Graco's products against those of competitors, and how to develop effective marketing strategies.

By continuously investing in training and development, Graco is able to observe and further enhance its distributors' service capabilities on an individual basis.

Monitoring

Graco proactively monitors various aspects of its distributors' performance, primarily through account management and careful observation of individual distributors. Local District Managers regularly visit distributors to conduct a range of monitoring. For example:

- Graco monitors how distributors incorporate Graco stands, displays and merchandising. If they are not up to standard, the District Managers will raise this with the distributor. [See images 1-4 below of product stands and store layouts from Graco distributors];
- Graco reviews the on-site facilities (including demonstration areas and the staff available for demonstrations). If staff require additional training, this is organised;
- Graco monitors areas such as product stock and the stocking of genuine parts, allowing Graco to quickly identify and address any gaps in these areas;
- Graco considers the distributor's service and maintenance capabilities; and
- During visits Graco undertakes activity planning with distributors (including in relation to the training of end-users and the conduct of demonstrations).

In addition, sales targets serve as a key performance indicator that are tracked throughout the year. In the event that an account appears to be regressing, Graco engages in regular conversations to determine the underlying causes and works to resolve any issues.

Graco also conducts an annual review of each distributor, in which it evaluates them against the objective requirements of the distributor's category.

Graco maintains a comprehensive list of certified service agents, ensuring Graco has a complete understanding of who is capable of providing high-quality service. If a distributor does not have internal servicing capabilities, then Graco will ensure that the distributor is linked with a certified service agent who can provide the necessary servicing.

In the event that a distributor's performance falls short in any particular aspect, Graco implements measures to address the issue. Should such lapses persist, Graco may consider closing the account with the distributor in question in accordance with the terms of its agreement. **[CONFIDENTIAL]**

Image 1: Graco Display in-store



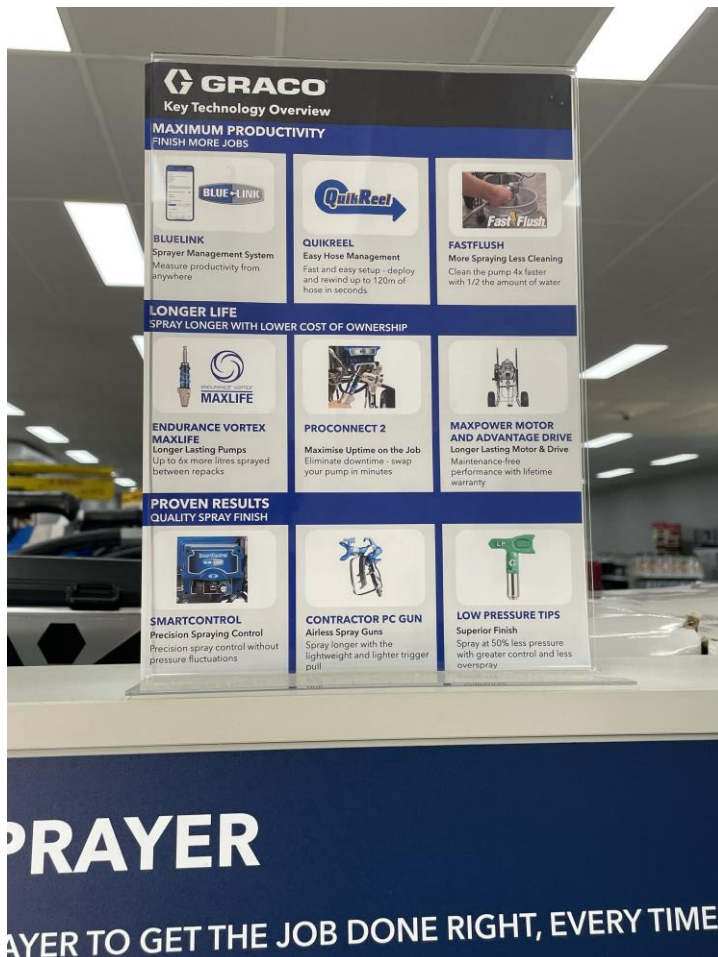
Image 2: Graco Display in-store



Image 3: Graco Display in-store



Image 4: Graco feature list in-store



2 Please provide a copy of the current distributor agreement for each distributor category.

Please see attached Confidential Schedule 1.

Graco has one Distributor Agreement that applies to all distributor categories. This Distributor Agreement provides general requirements for all distributors, including:

- Actively promoting, demonstrating and selling Graco products;
- Achieving the objectives outlined by the local District Manager;
- Maintaining sufficient stock of Graco products;
- Maintaining genuine Graco spare parts;
- Offering servicing capability or outsourcing service and support to suitable service agents; and
- Conducting a reasonable amount of advertising.

Graco's Distributor Agreement also covers a range of different product segments (including the paint sprayers where they are sold). Because the agreement covers a range of product segments, the local District Manager will discuss the relevant requirements for each distributor at the time it is setup and on an annual basis. The requirements and the discounts discussed at that time are then implemented at Graco's head office.

3 For each distributor category, please detail what, if any, changes will be introduced to Graco Australia's 'objective requirements', including any pre- and post-sales service standards, under the Notified Conduct.

Graco is facing difficulties because of free-riding. In particular, distributors are disincentivised and do not want to invest as fully in stocking, merchandising, demonstrating and servicing Graco products.

Under the Notified Conduct, Graco proposes to continue to require similar objective requirements to the five set out in question 1 above for its distributors but will tighten this and formalise it where possible. It will also increase the specific requirements that distributors need to meet in relation to the MAP policy.

| Current arrangement | Changes / comments |
|---|---|
| PRE-SALES | |
| Stocking a range of Graco paint sprayer products | [CONFIDENTIAL] With the MAP policy, Graco will be in a better position to insist on offering a greater range as distributors will be incentivised to invest in offering a wider range of products. |
| Having external facing sales staff (i.e., people on the ground that can discuss and demonstrate products for customers) | Graco intends to more directly monitor distributors staff abilities to commission and demonstrate units. |
| Be actively engaged in training | Graco intends to ensure that staff are actively involved and engaged in regular training. For example, Graco provides training modules for categories of products and has introduced Graco University as optional training. Graco plans to establish specific criteria for staff who wish to sell certain categories of products, ensuring that they possess relevant knowledge before engaging with customers. |

| | |
|------------------------------------|--|
| No MAP policy | MAP policy and explanation of requirements and permitted advertising |
| POST-SALES | |
| Stocking genuine Graco spare parts | [CONFIDENTIAL] With the introduction of the MAP policy, Graco intends to have more rigorous requirements for stocking basic spare parts. |
| Offering servicing capability | The MAP policy will give distributors confidence and resources to invest into servicing where perhaps they would not have entertained it before. It will become part of the key criteria to have service capability either in house or closely tied in with an existing service agent. |

4 Please detail how Graco Australia proposes to monitor and support current and new distributors in each distributor category to meet their 'objective requirements', including pre- and post-sales service standards under the Notified Conduct. Please also explain how Graco Australia proposes to monitor and support new and existing distributors' investment in on-site facilities, such as product displays or demonstration areas.

Graco intends to continue its current measures to monitor and support distributors. In particular, Graco's District Managers will continue to visit distributors and monitor the way Graco products are being sold and the service that is being provided. Furthermore, Graco will continue to review distributors annually to assess whether their distributor category classification is appropriate.

Additional measures that Graco proposes to introduce are as follows:

- *Training in on-site facilities*
Graco proposes to expand the scope of its training in order to provide advice on distributors' investment in on-site facilities. This advice will centre on how distributors can design demonstration areas and product displays to clearly exhibit the features and benefits of Graco's products.
- *Broader reviews of distributors*
As set out above, Graco proposes to more thoroughly monitor the stock holdings, product displays, and product knowledge of its distributors. In doing so, it will be able to review the quality of distributors' pre- and post-sale services, including service capability and thereby more accurately assess distributors' compliance with the objective requirements of their distributor category. Furthermore, it will ensure that distributors provide customers with the relevant information on the features of Graco products and the necessary safety precautions to be adopted in using those products.

5 Please detail how Graco Australia intends to monitor compliance with the Notified Conduct more broadly.

More broadly, Graco intends to monitor compliance through on-site visits by its District Managers who are assigned to particular distributors. Furthermore, it intends to regularly review (among other relevant metrics) sales figures, customer feedback, and distributors' advertised prices. Graco will be conducting broader reviews of distributors and will also conduct independent searches on pricing.

6 Please clarify which distributor category is classified as 'full-service' distributors (for example, as referred to in section 5, page iii of the notification).

'Full-service' distributors are those distributors which provide a full service and fall within the 'Advanced' distributor category.

7 Please clarify whether any distributors are currently permitted to provide online sales only of Graco Paint Sprayers.

[CONFIDENTIAL]

8 Please outline the proportion of Graco Australia's distributors that have Graco Paint Sprayer demonstration areas within their stores, and which distributor category these stores typically fall under.

Most of Graco's Specialised and Advanced Distributors can do dry demonstrations of the paint sprayers where they show how it is used and go through the accessories and features. In addition, a significant number can also do wet demonstrations with water or paint. Paint stores make up most of the distribution network, they all have areas typically at the back of their shops where paint sprayers can be tested and run. Non paint store distributors are typically what Graco call an 'equipment house' where they sell everything but the paint, these locations are more often than not service agents also so they have the ability to demo, test and run machines at their premises. In addition to this, Graco estimates that around **[CONFIDENTIAL]** of its distributors will also have highly specialised paint spray booths setup with extraction fans. These distributors will offer demonstrations within these spray booths as opposed to demonstrating products out the back of their shop.

See below images 5 which depicts a paint demonstration at the back of a shop offered by a Graco distributor. Image 6 also shows the entry to a paint spray booth at a full service distributor.

Image 5: Paint demonstration out the back of a shop



Image 6: Entry to paint spray booth



- 9 Please outline whether Graco Australia currently supplies Paint Sprayers to equipment hire businesses. If so, please explain how Graco Australia supports and monitors staff in these businesses receiving the necessary training about Paint Sprayers to instruct end-customers about their correct use.**

[CONFIDENTIAL]

Some of Graco's advanced distributors who possess strong capabilities in service, repair, demonstrations, and training, do offer paint sprayers for hire as part of their product offering. These distributors have the requisite expertise to ensure that the products are used correctly and maintained in good working condition. These distributors will discuss the experience and needs of customers and provide appropriate training or demonstration where required about how to use the paint sprayer before the product is hired.

- 10 (Confidential) Schedule 5 to the notification provides a list of Graco Australia's current distributors. However, it appears that certain distributors are not included in Schedule 5 - for example, [CONFIDENTIAL]. Please provide an updated and complete list of Australian distributors of Graco Paint Sprayers at Schedule 5, including email contact details and distributor category. There also appears to be a discrepancy between the total number of distributors within Graco Australia's network provided at section 6.2 of the notification (266) and the total number of distributors in Schedule 5. Please reconcile any differences in this total number in your response.**

[CONFIDENTIAL]**Graco Paint Sprayers – product features and end-customers**

- 11 Please describe the end-customers of Graco Australia's Paint Sprayers, and what the current proportion of entry level (or DIY) customers is compared to professional tradespeople.**

Graco's customers are mainly professionals and tradespeople. This incorporates professional builders, painters and renovators as well as tradespeople that undertake, among other things, painting jobs. 'DIY' customers are home-owners who are renovating or painting their own homes.

The DIY category encompasses those who require a spray gun for infrequent use, typically ranging from 1-10 jobs per year, and is further differentiated by their expected paint usage. Conversely, contractors are those who use a sprayer for more frequent jobs and typically spray upwards of 2000 litres per year. Based on Graco's sales and classification of DIY / Contractor Sprayers, Graco estimates that DIY end-users comprise approximately [CONFIDENTIAL] of its customer base, while contractors make up the remaining [CONFIDENTIAL].

- 12 Pages 12 – 14 of Annexure A to the notification lists a range of features that are unique to Graco Australia Paint Sprayers which it submits require significant pre-sales demonstration and post-sales support. Can you please explain what a typical sales process involves in order to explain or demonstrate these features to end-customers. In your response, please explain how this sales process might differ between entry level and professional trade Paint Sprayers.**

The sales process typically commences when an end-user expresses interest in acquiring a spray

machine, which could arise from one of the following scenarios: 1) as a new user seeking entry into the market, 2) making enquiries about a particular sprayer based on personal research, or 3) requiring guidance on the best-suited machine for a particular coating or material. These enquiries necessitate further clarifications and consultations to ensure that the most suitable machine is recommended to the user, without under-specification or over-specification. Graco emphasises the importance of training its distributors to ask the right questions, as there is no one-size-fits-all approach in this regard.

The sales process then proceeds with a comprehensive inquiry into the circumstances in which the customer will be using the product. The purpose of this inquiry is to ensure that customers obtain spray guns which are suitable for their intended purpose and context. Graco has a brochure that is used to help train distributors called "[The basics of airless spraying](#)". The sales process involves running through questions to understand the customer's intended use. This is supported by the questions as outlined on page 18 under the heading *Selecting A Sprayer: Eight Questions To Ask*, including:

- what types of materials will you spray?
- how many gallons per week will you spray?
- what power sources are available? Will most jobs be indoors or outdoors?
- what types of surfaces will you be spraying?
- how many spray guns will you use at one time, now and in the future?
- what types of jobs will you bid?
- what hose lengths will you use?
- how much do you want to spend on a sprayer?

Once an appropriate product has been identified for the customer, the salesperson will demonstrate how the product is to be used physically. This involves unboxing the product; explaining and demonstrating how to set up the product before use; and thoroughly explaining the spray gun's features and best practices in relation to its operation. If the distributor has a paint-booth setup, or an area out the back of the premises, the salesperson may also physically demonstrate how the product is used for the customer.

Many of the features listed are features exclusive to the contractor range of products. DIY sprayers are less likely to have the full post sale treatment such as setup and a demo on how to use, typically this is due to the size of these sales, DIY sprayers are a lower cost item that are less complicated and therefore don't always require significant demonstration. However, the presale discussions in most cases would have happened and the talk about the application and the job etc., so the 'how to's' are generally discussed in this conversation. The trade/contractor spray guns come with many more features exclusive to Graco so the pre-sales discussion and demonstration is of higher importance. The post-sales care is also more complex.

13 Please outline the extent to which in-store training, demonstrations or repair services are currently offered across the Graco Australia distributor network. In your response, please include how they are proposed to change or be introduced under the Notified Conduct.

Current in-store training, demonstrations and repair services

Graco Australia currently offers on-site team training, demonstrations, on-site projects and certification training across its distributor network. This ensures that distributors are able to responsibly distribute, service and warrant the range of Graco equipment. However, over the last few years, distributors have been less willing to attend training because of the diminishing margins associated with the products. Graco is concerned that, without the MAP Policy, this will continue to decline.

In-store training happens weekly sometimes 2x per week by each District Manager within the region. Graco has six District Managers around the country and one of their job functions includes visiting distribution/paint stores and training staff. Service and repair training is a little more formal. This training gets done over a 2-3 day period and is run by Graco's Tech support Manager. Last year he ran around 10 major events around the country where distributors from each state came into a centralised location

to learn on Graco products.

Proposed changes to in-store training, demonstrations and repair services

As a result of the free-riding issues, a number of distributors are more reluctant to undergo training and invest the time to do this. With the MAP policy, Graco is of the view that distributors will be more inclined to invest the time and attend training. Graco also intends to require certain product training and Service and Repair training. To maintain top levels of distributorship, distributors will need to undertake this training.

14 Please outline the training and demonstration activities Graco Australia currently undertakes directly with end-customers including at trade shows and on site or in store demonstrations.

In addition to undertaking training activities with distributors, Graco provides on-site support for end-customers.

First, representatives of Graco visit the work environments of end-customers. This allows Graco representatives to accurately assess the suitability of its products for the specific customer, and to provide personalised advice and recommendations accordingly. Having recommended a product, the Graco representatives may explain and/or demonstrate 'best practice' in relation to the use and maintenance of that product.

Trade show training is similar at each event. Graco typically has a stand where it displays all of its products including both machines and accessories, and it also has one or two units with paint ready to demonstrate techniques. Throughout the course of a trade day Graco will get many different types of end-users through with a varying range of experience and expertise in spray application. The type of training Graco offers at these events is not formal, it is more of a "how can we help you?" type of experience. Graco may get questions from "I am new to spray, what can you tell me about it?" to, "I have multiple spray guns and I am looking for ways to improve my cleaning process" and everywhere in between. Trade days are often the starting point in conversation where the next training for the end-user will be onsite. For example, one question Graco often gets is, "I am looking for a solution to spray my doors and frames". Graco can talk through different options at a Trade Day, but often the end-user might want to see it in action prior to purchasing. From there, Graco will organise to go out on site with that end-user to demonstrate the machine in action whilst training them on best practices for that piece of equipment.

The nature of the discussion differs from person to person, job site to job site. This is why Graco does not think that training videos are sufficient as the demonstration and discussion needs to be tailored to the individual needs of the customer.

Please see images 7-12 which show the training, demonstration and trade show activities undertaken by Graco.

Image 7: Graco trade show demonstration



Image 8: Graco training and demonstration



Image 9: Graco training and demonstration



Image 10: Graco training and demonstration



Image 11: Graco trade show marquee



Image 12: Graco trade show marquee



15 Schedule 3 to the notification provides an example of a two-day training course that Graco Australia runs for its distributors. Graco Australia advises that in 2022 it ran this two-day program around 10 separate times. For the Relevant Period, please provide the total number of training events conducted by Graco Australia and the total number of attendees in each year. In your response, please explain whether these training events are conducted onsite by Graco Australia within the distributors' stores or require offsite attendance by distributors' staff.

The two-day training course mentioned here was for Service and Repair training (as mentioned above in question 13). For this style of event Graco may have anywhere from 10-20 people per session, that would equate to somewhere between 100-200 people for SRT training.

In terms of product training side, as set out above this happens very regularly. Some training sessions are more formal than others, and sometimes it can be ad-hoc depending on the time and place. But for example, Graco has six District Managers, if each one does one training session per week, that is 312 sessions. Each session could have anywhere from 2-10 people per session. That equates to 650-3120 people trained throughout the year (in distribution and stores). That does not take into account training of end-users. End-user training is less, typically because it is one-on-one most of the time. On average four per month per district manager, 48 per year per district manager, which equates to approximately 288 per year in total. **[CONFIDENTIAL]** So again, it varies. If the training is for distribution, it is normally done at their premises, if it is for end-users, most of the time it is at a job site or their own premises.

Rationale for the Notified Conduct

16 Please outline how long Graco Australia has been concerned about 'free riding' and what other measures Graco Australia has implemented, or considered implementing, to address this problem.

Duration of concern

Graco has been concerned about 'free riding' for approximately the last five years. During this period there has been significant growth in products being sold online. **[CONFIDENTIAL]** Internet sales mean that there is high visibility and accessibility of pricing information. This means that, if a particularly low price is offered online, it creates a reference point for other distributors who are forced to match the price in circumstances where they invest in providing good service and product demonstrations.

Graco distributors need to show they are capable of demonstrating the product but the internet enables them to advertise widely. This means that it is easy to sell products across Australia at a lower rate outside their main distribution area. This leads to a problem where local distributors may be investing in facilities and offering demonstrations but they are not obtaining the sales that are derived from it. Once one distributor offers a significant discount, others often feel the need to follow. It is this 'free riding' aspect that has become worse in the last few years.

Online distributors provide a diminished quality of services to end-customers of Graco products. Customers lack the presence of properly-trained sales staff to provide advice on the best Graco product for the customer's needs, as well as to provide thorough information and instruction on the setup and operative procedure for the equipment (for example, through equipment demonstration). Moreover, online retailers generally cannot provide after-sales, service and warranty support for the equipment. The failure to prioritise after-sales and technical support reduces consumer satisfaction which in turn damages Graco's brand reputation over time.

Measures to address the problem

The measures available to Graco to address this problem are limited. Graco provides distributors with a fixed discount, which varies depending on the category in which the distributor has been placed. However, Graco cannot control the prices that its distributors sell at.

Graco has considered whether it could impose other terms on distributors, but it is difficult to do this. Graco already imposes some standard requirements for how distributors are expected to provide service, but Graco must be mindful that its distributors are of different sizes, are located in different areas of Australia, and have different strategies, such that Graco cannot be overly prescriptive regarding business operations without disadvantaging one type of distributor over another. Internet advertised price is one aspect that is not dependent on size, geography, or business strategy of the distributors.

17 Pages 9 – 10 in Annexure A summarises correspondence received by Graco Australia from ‘full-service’ distributors which cite examples of other distributors advertising below list price and being forced to match those discounted prices. To the extent these are available, please provide full copies of all such correspondence received by Graco Australia for the Relevant Period and Graco Australia’s response in each case, including any internal records of complaints which occurred in person or via phone call or online meeting.

Please see attached Confidential Schedule 3 which highlights some conversations that the sales team have had with distributors over the last few years.

These have been collated from the relevant local district managers. Most of what occurs is verbal and occurs while the district managers are visiting the premises.

18 Please explain in which distributor categories Graco Australia is observing ‘aggressive’ online discounting of Paint Sprayers. In your response, please provide a complete list of these distributors for the Relevant Period.

Graco has observed aggressive online discounting particularly in the 'Advanced' distributor category.

[CONFIDENTIAL]

In the event that one of these distributors reduces their pricing, a competitive response is often elicited from other market participants, resulting in a "race to the bottom."

19 Please provide information about any complaints received in the Relevant Period by Graco Australia from distributors alleging that another dealer has failed to meet Graco Australia’s ‘objective requirements’, including any pre- and post-sales service standards imposed under distributor agreements.

Complaints from one distributor about another are usually price based. The answer to question 17 above sets out the nature of those complaints that have been received by local district managers. Most of what occurs is verbal and occurs while the district managers are visiting the premises.

Graco also receives complaints from end-users about their experience with a distributor. These complaints are generally investigated by Graco. In the event that a distributor is not meeting expectations, Graco's representatives take the initiative to seek to resolve the issue or discuss the problems with the distributor.

Additionally, Graco offers a customer experience survey to end-users. If negative feedback is received regarding poor support, it can be indicative of the end-user's experience with the distributor. Graco resolves any customer issues and then subsequently communicates with the distributor to identify and

address any underlying problems.

[CONFIDENTIAL]

20 Please provide any documents prepared by or for a Director, the board of Directors or any Senior Management of Graco Australia or Graco Inc that examines or considers introducing the MAP Policy in Australia.

[CONFIDENTIAL]

21 Please provide a list of any distributors that have stopped stocking Graco Paint Sprayers or have significantly decreased the volumes purchased from Graco Australia for the Relevant Period.

[CONFIDENTIAL]

22 Please identify any potential distributors that have refused to start stocking Graco Paint Sprayers and any current distributors that have refused to invest further in Graco Paint Sprayers because of 'free-riding'.

The list of distributors mentioned at question 21 have also invested less in Graco Paint Sprayers due to 'free-riding'. Many of Graco's distributors have expressed a similar sentiment that they will reduce the range of products stocked and accommodate customer requests on an as-needed basis, rather than stocking the entire range and risking aggressive pricing. It is this reduction in stocking and reluctance to invest in training and demonstration that Graco is seeking to address through its MAP policy and associated changes.

Prices and sale volumes

23 Please detail how Graco Australia determines its wholesale prices and RRP for each of its Paint Sprayers.

The wholesale prices and RRP for each of Graco's Paint Sprayers are determined by product managers at the regional level who consult with the Australian sales team during this process.

Specifically, prices for Paint Sprayers in the Australian market are determined by the Asian Product Manager. The Asian Product Manager conducts market analysis and price positioning, with input from the Australian Graco sales team and distributors. This includes reviewing competitors' prices. Margin analysis is then conducted, in which the overall cost of the product is considered. Before setting a wholesale price and RRP, the Asian Product Manager finally considers the right market price position for customers to acquire the products and Graco's profitability targets.

24 Please provide all wholesale price lists for each of Graco Australia's Paint Sprayers for the Relevant Period.

[CONFIDENTIAL]

Please note that the following part numbers have slightly changed as set out below:

- 16N667 - made obsolete.

- 16W104 - made obsolete.
- 16Y874 - Superseded by 17E629.
- 16X881 - Superseded by 17E620.
- 16Y639 - Superseded by 17E614.
- 16Y832 - Superseded by 17E621.
- 17C395 - Superseded by 17E887.
- 17C398 - Superseded by 17E889.

25 For each Paint Sprayer (listed at Schedule 1 to the notification), please provide total annual revenue and wholesale sales volumes for each of 2019 to 2022 FY and 2022/23 FYTD.

[CONFIDENTIAL]

26 For each of Graco Australia's top 20 distributors (by sales volume) for each of 2019 to 2022 FY and 2022/2023 FYTD, please provide:

(a) a list of each Paint Sprayer (listed at Schedule 1 to the notification) supplied to the distributor;

[CONFIDENTIAL]

(b) for each Paint Sprayer listed in (a), the total wholesale revenue and wholesale sales volumes.

[CONFIDENTIAL]

27 Please provide any internal documents which record or analyse retail prices or margins of Graco's Paint Sprayers in Australia during the Relevant Period.

[CONFIDENTIAL]

28 [CONFIDENTIAL]

[CONFIDENTIAL]

Overseas experience

29 Please provide a list of all countries in which Graco Paint Sprayers are sold and identify whether the products are subject to resale price maintenance in each of these countries. Please provide details of any differences in reported or perceived service quality, distributor performance, or distributor numbers and sales over time between the countries in which the Paint Sprayers are subject to RPM and those countries in which they are not.

Graco Paint Sprayers are sold in approximately 100 countries. However, there is a big difference

between Graco's operations in developed markets and those in semi-developed or less developed areas. Graco's products are not sold in North Korea, Cuba, Iran or Russia.

Graco Paint Sprayers are subject to a MAP Policy (which allows a limited form of resale price maintenance) in the United States and Canada. In Europe, the legal environment is not suitable for implementation of a MAP Policy.

It is difficult to conclusively attribute any differences in service quality, distributor performance, or distributor numbers and sales over time to a MAP Policy. A range of factors contribute to service quality, distributor performance, and market positioning over time. However, Graco's analysis of market positioning, as well as anecdotal evidence obtained directly from distributors, support the efficacy and importance of a MAP Policy. This evidence suggests that a MAP Policy has assisted in maintaining consistent advertised pricing and promoting the overall perceived value of Graco Paint Sprayers in the marketplace as well as fostering confidence in distributors in investing in their businesses to provide better service to customers.

Given that obtaining approval for resale price maintenance policies is a costly and time-consuming process, Graco would not pursue such a course of action unless it was deemed beneficial for both the end customer and distributors. The company remains committed to providing high-quality products and services at fair prices.

30 In section 7.2 of Annexure A to the notification, Graco Australia advises that in the United States, Graco Inc's prices have increased by 3-4% each year since they introduced MAP policies there. Please clarify if this relates to Graco Inc's Paint Sprayer range only, and whether this refers to wholesale or retail prices.

This relates to the paint sprayer range and wholesale prices for those products.

31 To the extent that Graco Australia or Graco Inc is aware, please outline whether other US-based companies have introduced a minimum advertised price requirement for similar paint spraying equipment.

Graco cannot confirm whether other US-based companies have introduced minimum advertised price requirements for similar paint spraying equipment. This kind of information is not publicly available and is a matter between the companies and their distributors.

32 Following Graco Inc's introduction of MAP policies in the United States, please explain how wholesale prices and cost of production and supply have changed over the same period.

While Graco cannot provide specific data to address this query, there have been several factors contributing to the general increase in pricing. These include changes in wholesale pricing, rising product costs, transportation expenses, distributor sales, inflation and other related factors. Pricing has been quite volatile over the last 2-3 years, which has also impacted the market.

Regarding the MAP policy in the United States, Graco has not observed any negative effects and has been able to enhance its partnerships with distributors by improving the value offerings.

33 Please detail any distributor network-wide sales and promotions Graco Inc has run in the United States during the Relevant Period, while a minimum advertised price requirement has been in place. Please also outline any special discounting or sales promotions that Graco Australia has or would consider implementing across its distributor network under the Notified Conduct, and how such promotions would be implemented in Australia.

United States

[CONFIDENTIAL]

Australia

In light of the experience of network-wide sales and promotions in the United States, Graco Australia would consider implementing additional sales promotions across its distributor network under the Notified Conduct. **[CONFIDENTIAL]**

Such sales would be beneficial to all distributors of Graco products. By contrast, the network of distributors is not benefited when one distributor is able to heavily discount Graco's products.