



10 February 2020

Merger Investigations
Australian Competition &
Consumer Commission

By email: mergerauthorisations@accc.gov.au

Dear Sir/Madam

AP EAGERS LTD: GUMTREE/COX MEDIA – SUBMISSION

AP Eagers Ltd (**APE**) understands that Gumtree Au Pty Ltd has entered into a share sale agreement to purchase Cox Australia Media Solutions Pty Ltd (**Proposed Transaction**) and in that regard has applied to the Australian Competition and Consumer Commission (**ACCC**) for merger authorisation. We have been invited to provide the ACCC with our views on the Proposed Transaction, which we now set out below. Please note that this is a generalised background only and that practices, costs and outcomes will vary between dealerships within the Group.

AP Eagers – Background

- 1 APE is an Australian publicly listed company that operates a national portfolio of automotive dealerships and related businesses. AP Eagers has a network of over 229 new vehicle and 68 new truck and bus dealership locations in Australia that supply both new and used vehicles and represents 33 car brands and 12 truck and bus brands. In addition, AP Eagers provides ancillary services such as vehicle repairs, provision of spare parts and accessories, the supply of warranties and automotive financing.
- 2 In 2018, APE had revenues of over \$4 billion and net profit after tax of almost \$100 million.
- 3 In 2019 APE acquired all of the shares in Automotive Holdings Group Ltd, making it the largest automotive dealer group in Australia.

DealerMotive Ltd

- 4 DealerMotive Ltd (DealerMotive) is a consortium of automotive dealers formed in December 2016. Subsidiaries of AP Eagers, namely A.P. Group Ltd and Automotive Holdings Group Limited, hold shares in DealerMotive totalling 9,973,293 and 5,450,000 respectively.
- 5 DealerMotive holds 30% of the shares in Cox Automotive Australia Pty Ltd (CAA), which wholly owns CAMS. CAMS operates the online automotive classified listing sites Autotrader (www.autotrader.com.au) and CarsGuide (www.carsguide.com.au) (together referred to herein as "CG&AT").

The predecessor to DealerMotive was One Way Traffic Ltd (OWT). That entity was formed in 2011 for the purposes of a joint venture between News Corp Australia and the original dealer group (Foundation Shareholders) to form OWT to operate the CarsGuide site, which at the time was both online and an insert in News Corp Australia's various published newspapers,

- offering editorial content on vehicles and other automotive news, together with advertising space and classified advertising for used cars.
- 6 OWT was formed for the purpose of creating a competitor to Carsales Limited (CS) in the aggregation of online vehicle classified listings. APE was a Foundation Shareholder in OWT. Two of the current Directors of AP Eagers were involved in the formation of OWT in 2011 and were Directors of OWT from inception to the formation of DealerMotive in 2016 when News Corp sold its shares in OWT.
- 7 It is our view that News Corp decided to exit OWT as a result of substantial accumulated trading losses and did not wish to direct further resources to OWT to enable it to adequately compete with CS.
- 8 In a further attempt to strengthen Carsguide as a competitor to CS, the automotive dealer shareholders in OWT approached Cox Automotive US (owner of Autotrader.com) to join as a strategic partner and enable News Corporation to exit OWT. This move saw the formation of DealerMotive. In spite of changing revenue models, reducing fees charged to dealers and eliminating fees charged to private sellers, Carsguide has failed to diminish the dominance of CS.
- 9 In 2019, automotive Dealer investors (including AP Eagers) supported a proposal by Cox Automotive to sell OWT to eBay; the expectation being that a large international business with a compelling consumer strategy would increase competition and provide private buyers/sellers of vehicles as well as Dealers with a strong alternative to CS.

Overview of advertising by AP Eagers' businesses

- 10 Across its businesses, AP Eagers utilises various forms of media for advertising. However advertising on CS is the largest single advertising channel based on annual spend. CS is utilised for advertising for sale new, demo and used vehicles (depending upon other factors such as OEM restrictions on listing new vehicles).
- 11 In the current market, vehicle sales increase significantly with effective online classified advertising. This is caused by a number of factors:
- a. Buyers will usually spend a significant amount of time researching vehicles online. Once a vehicle make and model has been chosen a buyer will then find classified listings of comparable vehicles to find the chosen vehicle at a suitable price. We have very limited walk-in inquiry about a vehicle where the buyer hasn't first located the vehicle online, usually via an open-source listing such as our own website or Autotrader/Carsguide, so if a vehicle was not listed online for sale it would be extremely difficult to sell.
 - b. We are able to compete for a much broader market of potential buyers as it is commonly accepted by consumers that a vehicle can be purchased interstate and easily transported for low additional cost, therefore the likelihood of selling vehicles that are listed online increases with this larger market of buyers.
- 12 Of our total advertising expenditure, approximately 37% is on classified advertising with CS and 4% is on Autotrader/Carsguide. Of our total spend with online advertising spend, approximately 84% is spent with CS, 13% with Autotrader/Carsguide and 3% with Gumtree.
- 13 As a Group we do not have a uniform approach to advertising online, nor are there specific Group-wide mandates as to where and how vehicles must be listed. Each dealer will decide himself/herself depending on the needs of the individual business.
- 14 Though we make some use of analytics offered by each platform (ie page visits, site visitors etc) to determine how useful it may be to list vehicles on a particular classified platform, we

generally list all quality used vehicles and those new vehicles we are able to list for sale on CS and Autotrader/Carsguide. As a result of the listing on Autotrader/Carsguide, the listing is automatically published to Facebook Marketplace as well.

- 15 Gumtree is infrequently used across our Group for lower cost used vehicles for various reasons including:
- a. For used vehicles the quality of leads from Gumtree tends to be low because of how the platform has traditionally been used;
 - b. The listing cost of putting the vehicle on an additional platform;
 - c. The cost of subscribing to an additional platform in order to list on it; and
 - d. The cost of managing an additional listing platform.
- 16 We ordinarily use Gumtree and Autotrader only for lower cost used vehicles. This is because advertising on CS is cost-prohibitive for vehicles at this end of the market and potential buyers in this area of the market are more accustomed to using these sites.
- 17 Of the leads that AP Eagers receives for quality used vehicles, approximately 60% - 90% are from CS. Leads that come from Autotrader/Carsguide, walk-ins and the dealer's own website are generally negligible by comparison.
- 18 For lower cost used vehicles where the dealer primarily offers the vehicle for sale on Gumtree and Autotrader, approximately 70% of leads come from Gumtree and 30% come from Autotrader.
- 19 The average cost per vehicle for online advertising is on average \$550 including the periodic subscription fees, additional software subscription fees and other charges (being the fixed costs uniquely charged by CS). This however may be much lower or higher depending upon the volume of vehicles advertised by the dealership which would share fixed costs proportionately.

Process for advertising online

- 20 To advertise a vehicle for sale online, the listing will be generated via a data aggregator and then published by the aggregator to each platform chosen by the dealer for that listing. One common aggregator used in the Group is Dealer Solutions, which also provides customer management system software.
- 21 A dealer that sells both new, demonstrator and used cars is required to hold two accounts with CS, one for each new/demonstrator cars and used cars.
- 22 Leads are generated by interested customers within the CS platform. When this occurs, notification of the lead only is sent to the dealer via an email with a link to the dealer's Autogate account, who must then log into Autogate (a lead management system ('LMS') offered by CS and requiring an additional dealer subscription to obtain details of the lead. CS do not send any information within the lead email notification, therefore the only way a dealer can obtain the customer contact information is by logging into Autogate.
- 23 Autogate will not 'talk' with other LMS's and so all lead data must be manually extracted and entered into the dealer's usual LMS. It is not possible to use CS as a dealer without subscribing to Autogate as all lead information would be inaccessible. CS also offers AutoGate Pro, which is able to manage leads from other websites but the additional subscription cost and other functionality issues mean dealers are not inclined to use it.

- 24 An effective LMS is important to enable a dealer to quickly respond to and effectively manage leads. Delays in responding to leads can result in a lost sale (because a potential buyer purchases another vehicle) and if the vehicle is listed on CS, higher fees being incurred by the dealer in respect of the listing because the longer the listing remains online, the more leads may be generated.
- 25 If dealers were not forced to use CS's offerings for data aggregation, publishing and lead management on CS, and details of leads were available without same, they would not maintain an Autogate subscription and only maintain one subscription for each function.
- 26 Almost all dealers in the Group rely on LiveMarket in their businesses. LiveMarket is a product that allows subscribers to look at a range of information relating to similar listings including days listed, list price, etc which allows subscribers to then compare a vehicle to those listed vehicles to determine the appropriate price. There is no alternative offering that is comparable on the market.

As LiveMarket is a tool available to dealers who subscribe to it via CS's Datamotive platform, it is not necessary to list on CS in order to utilise LiveMarket.

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Yours faithfully
AP EAGERS LTD

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MR Martin Ward
Chief Executive Officer