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## **Submission to the ACCC – Response to Preliminary Statement of Views**

Proposed Acquisition of Cox Australia Media  
Solutions Pty Ltd by Gumtree AU Pty Ltd

28 March 2020

**Public register version – restriction of publication claimed in relation to part.**

Information confidential to Gumtree AU Pty Ltd and its related bodies corporate  
and / or to the Parties has been redacted.

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## Contents

	<b>Page</b>	
1	Executive summary	1
2	Feedback from third party submissions	4
3	Relevant markets and market share for automotive classifieds	4
3.1	Market definition	4
3.2	Relevant market share metrics	6
4	Gumtree cannot be an effective competitor to Carsales without the transaction	8
4.1	Dominance of Carsales	8
4.2	Gumtree's continued declining performance despite attempts to gain a larger share of dealer inventory	8
4.3	Gumtree has been extremely limited in its ability to improve its financial performance and enhance its competitive position	10
4.4	Carsguide / Autotrader have not been able to successfully challenge Carsales despite ongoing attempts to do so	11
4.5	Gumtree has made the assessment that absent the acquisition, neither party could challenge Carsales as the #1	15
4.6	Evidence of pro-competitive benefits likely to flow from the Proposed Transaction	15
4.7	The benefits resulting from creating an effective competitor to Carsales outweigh any benefit of maintaining multiple ineffective competitors failing to constrain Carsales	17
5	Facebook Marketplace is a growing threat	21
5.1	Facebook's ability to disrupt online classifieds by leveraging its dominance in social media	21
5.2	Facebook is not just a channel for the distribution of other platform's advertisements (as indicated in Carsales' submission) – it is a competitor in its own right	22
5.3	Facebook Marketplace is rapidly taking market share	23
6	Display advertising	23
6.1	Market definition	23

6.2	Regardless of the definition adopted, Gumtree faces significant constraint in any market for display advertising	26
7	Conclusion	28

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## 1 Executive summary

### **The Proposed Transaction ought to be authorised on the basis of either no SLC or net public benefits**

Gumtree welcomes the ACCC's preliminary views on its proposed acquisition of Cox Australia Media Solutions (the **Proposed Transaction**)

In particular, Gumtree welcomes the ACCC's preliminary findings that:

- the Proposed Transaction is unlikely to substantially lessen competition in respect of the supply of online automotive classified advertising to private sellers;
- other online automotive classified platforms including Carsales, Facebook Marketplace and Drive are likely to continue to impose a significant competitive constraint on Gumtree in relation to display advertising post-acquisition; and
- the Proposed Transaction is likely to result in pro-competitive effects, and in public benefits in the form of efficiencies and synergies and improvements to the customer experience when buying cars online, including reduced search costs.

For the reasons set out below and in Gumtree's initial submission in support of its Application, and consistent with customer feedback, the Proposed Transaction is more likely to increase than reduce competition in any relevant market for automotive classifieds, creating network effects that enable the combined entity to compete more strongly against Carsales and also Facebook Marketplace.

In brief, this submission considers that:

- Consistent with the ACCC's prior consideration, the markets for the supply of online automotive classified advertising for dealers and for private sellers are most appropriately defined as separate markets.
- However, regardless of market definition, the Parties are not close competitors given the significant differences in the focus of their businesses;
- No one measure of market share with respect to online car classified advertising for dealers or private listings is conclusive, and Gumtree agrees that each of revenue, audience and inventory should be considered. Revenue is particularly significant as it reflects the ability a market participant has to charge for its services;
- Carsales' ability to charge more and nevertheless increase inventory reflects its market power;
- Despite Gumtree's attempts to grow organically, its financial performance continues to decline;
- Carsguide/Autotrader has not succeeded in challenging Carsales' market position;



- Alone, neither Gumtree or Carsguide/Autotrader is capable of challenging Carsales;
- The UK experience demonstrates the pro-competitive effects that are likely to result from the Proposed Transaction;
- The benefits resulting from creating an effective competitor to Carsales outweigh any benefit of maintaining multiple ineffective competitors failing to constrain Carsales, either under a scenario of multi-homing or providing a single alternative to Carsales;
- The Proposed Transaction would create a market participant better able to offer an alternative to Facebook Marketplace, increasingly able to leverage its dominance in social media platforms to extend that market position into classifieds; and
- Regardless of market definition, Gumtree will continue to face significant constraints in display advertising, including from Google and Facebook.

Accordingly, Gumtree considers that there are strong grounds for the ACCC to authorise the Proposed Transaction on the basis that it would not, and would not be likely to, substantially lessen competition, or, in the alternative, that the likely public benefits associated with the Proposed Transaction would outweigh any potential detriment in any relevant market.

**The Proposed Transaction will create a vigorous and effective competitor in Gumtree against a dominant Carsales, providing meaningful competition within the market for automotive classifieds**

The rationale for the Proposed Transaction is to create a vigorous and effective competitor in Gumtree, which will be able to sustainably and successfully challenge Carsales' long-held position of dominance in the market. The fact of Carsales' sustained dominance is clear on all market share metrics. Carsales has the largest share of audience and dealer inventory, and the overwhelmingly largest share of revenue, resulting from significant market power that has endured over a considerable time period. Gumtree accepts and agrees with the ACCC's view that no one market share measure alone provides an accurate reflection of the market. However, taken together, they provide an unambiguous picture of the relative positions of the parties and of Carsales: Carsales is dominant, the parties are a very distant second and third. Carsales has enjoyed this position in the market, largely unchallenged, for a decade, despite attempts by competitors to innovate by introducing new products and brands or changing their pricing models, and despite new entry and significant technological change.

As previously submitted by Gumtree and noted by the ACCC and third parties who have provided feedback, many dealers consider Carsales to be a 'must-have'. These dealers feel that they currently have no viable alternative, and any other online automotive classified platform is an optional extra – they would not realistically consider switching away from Carsales to Gumtree and/or Carsguide/Autotrader. Gumtree notes that these sentiments extend to dealers that are shareholders in Carsguide/Autotrader. A market structure in which dealers view Carsales this way has resulted in Carsales being able to continuously increase prices and grow its revenue, year on year to the detriment of consumers.

**This enhanced competition far outweighs any loss**

Gumtree acknowledges and accepts the ACCC's finding that to some extent, other platforms are likely to be competing for dealers that want to advertise on more than one platform (outside of Carsales). This is

**of competition  
between the parties  
for dealers' second  
choice of platform**

competition at the margins only and does not impact the overall structure of the market. While Gumtree agrees that the Proposed Transaction will reduce the number of platforms for dealers, it disagrees that dealer choice will be reduced. Indeed, in most cases dealer choice will increase because Gumtree will become a better and more viable alternative to Carsales.

Gumtree notes that the ACCC is weighing the extent to which the Proposed Transaction will enhance competition in the online automotive classified market by creating a stronger competitor to Carsales while removing competition between Gumtree and Carsguide/Autotrader. The procompetitive effects likely to result from the Proposed Transaction are manifest. The Proposed Transaction provides an opportunity to create real and robust competition challenge the dominant market leader. This opportunity should not be dismissed to preserve the limited competition that exists between Gumtree and Carsguide/Autotrader, particularly since the parties have differentiated platforms (attracting different types of cars from different seller types) and are rarely first choice for dealers. Further, the Proposed Transaction will ensure that Gumtree is able to continue to compete against the growing and real threat presented by Facebook Marketplace.

Gumtree agrees with the ACCC's finding that network effects (in relation to inventory and audience) are likely to result from the Proposed Transaction, allowing the platform to deliver higher quality to its users. Absent the Proposed Transaction, neither Gumtree nor Carsguide/Autotrader could effectively challenge Carsales, due to the lack of network effects. Gumtree intends to invest in a better dealer offering to compete more effectively with Carsales. It is evident from Gumtree's internal documents that the Proposed Transaction, and the increase in scale, inventory and audience it will provide, is central to this strategy. Although Gumtree may have proceeded with investment in new products or the **[Confidential to Gumtree]** [REDACTED] absent the Proposed Transaction, given the steady and sustained decline in Gumtree's performance, Gumtree's assessment is that the investment will be significantly more likely to succeed in combination with the Proposed Transaction.

**Issues to be  
addressed**

This submission addresses the above issues as well as other key observations made in the ACCC's preliminary statement of views in relation to:

- the submissions of market participants;
- market definition in relation to automotive classifieds;
- the role of Facebook Marketplace within automotive classifieds markets; and
- the supply of display advertising and the relevant market for an assessment of competition in relation to that supply.



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## 2 Feedback from third party submissions

The ACCC has indicated that most stakeholders who provided submissions or were contacted by the ACCC do not have concerns about the proposed acquisition and that dealers are generally of the view that, post-acquisition, there is the potential that Gumtree may be a viable alternative to Carsales.<sup>1</sup>

On the other hand, the ACCC notes that some *competitors* of Gumtree and Carsguide/Autotrader have raised concerns that the proposed acquisition will reduce competition to supply online automotive classified advertising.<sup>2</sup>

In that regard, it should be noted that where (i) customers are unconcerned and (ii) competitors are concerned about a horizontal merger, this suggests that the merger is pro-competitive. To elaborate, a pro-competitive merger that permits the merging party to challenge its rivals more effectively is likely to lead to:

- Better value services, with lower (quality-adjusted) prices; and
- lower profits for rivals of the merged entity (because, as the merged firm competes with them more effectively, they must lower their prices to retain or win back customers).

The first of these points explains the lack of customer concern while the second explains why competitors may complain. Gumtree submits that the feedback provided by market participants ought to be weighed in this context.

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## 3 Relevant markets and market share for automotive classifieds

### 3.1 Market definition

Gumtree submits that the markets for the supply of online automotive classified advertising for dealers and for private sellers are separate, consistent with the ACCC's prior decision in Carsales/Trading Post (2013).<sup>3</sup> This is because dealer advertisers have different requirements to private advertisers when listing a vehicle.<sup>4</sup>

Generally, private advertisers will have just one car for sale and so do not need sophisticated tools to track their listing(s). Private advertisers are also more price sensitive, requiring certainty as to what costs they will incur (if any) for advertising their vehicles. To attract private listings and increase inventory, most online automotive classifieds providers provide private advertisers with access to free or 'freemium' automotive classified advertising. The exception is Carsales, which is able to charge a fixed price for the private listing of cars priced at \$5,000 or more.

In contrast, dealer advertisers often have a large stock of vehicles to advertise and will require tools to assist in managing multiple listings and tracking leads. To serve these requirements, online automotive classified providers have different offerings and pricing models for dealers than those for private advertisers. For example, Carsales charges

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<sup>1</sup> ACCC, *Gumtree proposed acquisition of Cox Media – Statement of preliminary views* (16 March 2020) at 2.17.

<sup>2</sup> ACCC, *Gumtree proposed acquisition of Cox Media – Statement of preliminary views* (16 March 2020) at 2.18.

<sup>3</sup> ACCC, *Carsales.com Limited – Proposed Acquisition of Assets Associated with Trading Post from Telstra Corporation Limited* (Public Competition Assessment, 13 June 2013), para 60.

<sup>4</sup> Gumtree's Application for merger authorisation (14 March 2020) at page 32.

dealers a monthly fee (in addition to a fee per lead), which includes access to Autogate, a software tool which dealers can use to manage their inventory and leads.

On the consumer side, while Gumtree acknowledges that many potential buyers consider vehicle listings by dealer advertisers to be substitutable for vehicle listings by private advertisers, some, buyers may have a preference for either dealer or private seller vehicles. For example, buyers may consider the quality of dealer vehicles to be more reliable as statutory guarantees apply, whereas private vehicles may be considered less reliable but cheaper. Carsales, Gumtree, Carsguide/Autotrader and Drive also offer potential buyers the ability to filter a search, once it has been performed, by seller type (however none of the platforms give buyers the option to make this selection at the time a search is run).<sup>5</sup>

However, regardless of market definition, Gumtree submits that there is unlikely to be any substantial lessening of competition whether the market is defined as a single market or separate markets for dealers and private advertisers.

On either construction of the market, the parties would not be each other's closest competitors - Carsguide/Autotrader's closest competitor is Carsales, and Gumtree's closest competitors are Carsales and Facebook Marketplace. In particular, as the ACCC has noted, Carsguide/Autotrader have very little presence in private car sellers, while Gumtree has a high volume of private inventory. For those dealers that use both Gumtree and Carsguide/Autotrader sites, they frequently differentiate between the sites, placing higher value inventory on the Carsguide/Autotrader sites and lower value inventory on the Gumtree site.<sup>6</sup> In this way, the transaction would bring together two complementary platforms rather than two closely competing platforms (by which it is meant that Gumtree and Carsguide/Autotrader largely target different user groups).

Currently, Carsales' audience is many times larger and more engaged than the audience of Gumtree or Carsguide/Autotrader.<sup>7</sup> Carsales has the majority of revenue in the market, while Carsales' inventory, at over 200,000 listings, is more than double that of Carsguide/Autotrader and 1.6 times that of Gumtree, with a significant proportion of Gumtree and Carsguide/Autotrader inventory also being listed on Carsales.<sup>8</sup> As indicated in section 4.2 below, Gumtree has experienced significant declines in its inventory, audience and revenue at both the dealer and private advertiser level (and therefore in aggregate if the ACCC concludes that dealer and private advertiser markets are not separate).

Whether the Proposed Transaction is considered in relation to a broader or narrower market, the competition assessment and public benefits analysis are unchanged.

Gumtree's submissions on the relevant market for display advertising are set out at section 6.1 below.

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<sup>5</sup> Facebook Marketplace identifies whether a listing is a Dealership listing but does not currently offer the option to filter by seller type.

<sup>6</sup> See section 4.7

<sup>7</sup> The audience market shares that were provided with the application did not consider separate audiences for dealers and private sellers as this level of granularity is not available from Similarweb or Nielsen.

<sup>8</sup> See 4.7(a). 60% of used car dealers (79% inventory-weighted) who list with both Parties also list on Carsales.



### 3.2 Relevant market share metrics

Gumtree agrees with the ACCC's approach in considering a variety of market share metrics in combination, as each metric when considered individually has some limitations.

#### *Revenue*

Carsales and REA Group have questioned the relevance of the revenue share metric given the differences in business models adopted by market participants.<sup>9</sup> While it is acknowledged that platforms permitting dealers to list for free (e.g. Facebook Marketplace) can place a substantial constraint on the parties, the ability of Carsales to generate substantially more revenues than other platforms that do charge dealers is notable and reflects the fact that Carsales has substantial market power, such that it is able to charge more without losing customers. Carsales is the only online automotive classified provider in Australia that is able to operate a closed model and charge a price per lead for dealers, and an upfront price for private advertisers. For this reason, Gumtree submits that market shares based on revenues are indeed highly relevant, reflecting Carsales' pricing power.

#### *Audience*

As noted by the ACCC, audience market shares are also relevant as they give an indication of the ability of a platform to attract potential buyers. Carsales publicly reported to investors that 2.47 times more time is spent on the Carsales site than on its nearest competitor in Australia.<sup>10</sup> Investor reporting of the time spent on its site suggests that Carsales considers this to be a relevant and indicative market share metric. Gumtree submits that total time spent on site and number of page impressions are particularly useful ways to measure the relative strength of an online platform, because they give an insight into the engagement of a platform's audience (unlike other metrics such as number of users). A site with more page impressions or total time spent on it may suggest an audience with buyers who are more likely to purchase. However, as Carsales asserts, page impressions should be considered in the context of factors including:

- the number of cars displayed on each page of search results; and
- the number of fields buyers can search across.<sup>11</sup>

By default, Gumtree presents potential buyers with 24 cars on each page of its search results, while Carsales presents 20, Carsguide presents 12 and Autotrader presents 10. This means that buyers need to click through to more search result pages on the Carsguide/Autotrader sites to view the same number of cars as they would on Gumtree or Carsales. The ACCC should therefore be aware that any data on the number of page impressions will somewhat overstate Carsguide/Autotrader's position in the market based on this metric.

In relation to the number of fields a buyer can search across, Carsguide/Autotrader offers buyers the 'simplest' search option. On the homepage of the Carsguide/Autotrader sites, buyers are able to search only by make, model and new/used (although a 'More Filters' option can be selected and if selected, fields for kilometres, price and suburb/postcode also become available to buyers). In contrast, Carsales' and Gumtree's homepages offer

<sup>9</sup> Carsales, Submission to the ACCC, *Gumtree AU Pty Ltd proposed acquisition of Cox Australia Media Solutions* (10 February 2020) p 9. REA Group, Submission to the ACCC, *Gumtree AU Pty Ltd proposed acquisition of Cox Australia Media Solutions Pty Ltd* (18 February 2020) at page 11.

<sup>10</sup> Carsales, 2019 Annual Report (20 August 2019) at page 7.

<sup>11</sup> Carsales, Submission to the ACCC, *Gumtree AU Pty Ltd proposed acquisition of Cox Australia Media Solutions* (10 February 2020) at page 10.

buyers the ability to search by make, model, location, price range and keywords.<sup>12</sup> This means that buyers on Gumtree and Carsales are more likely to perform searches that return more relevant cars, which may mean that fewer page impressions are needed. This suggests that data on page impressions may understate both Carsales' and Gumtree's position in the market based on this metric, while overstating Carsguide/Autotrader's position.

Overall, the number of page impressions is a useful metric but likely overstates the size of Carsguide/Autotrader's audience.

### *Inventory*

Gumtree maintains that inventory size is also a relevant metric by which to consider market share. Carsales submitted that Gumtree's decline in inventory may be due to its efforts to 'clean' stale inventory, rather than an actual decline.<sup>13</sup> This is not credible. Gumtree's listings are subject to a 45-day expiry period and have been since

**[Confidential to Gumtree]** [REDACTED]

The 45-day expiration period means that listings are automatically removed after 45 days, therefore making it impossible that a large part of Gumtree's inventory would be 'stale' over the period in which the decline in inventory has been experienced. Gumtree has not introduced any other methods for "cleaning up" inventory that could account for the reported declines in its inventory numbers. The observed decline in inventory on the Gumtree platform will therefore be representative of the declining relevancy of the platform for dealers and private advertisers.

Carsales also suggested that a decline in inventory could indicate the success of an online automotive classified platform as the reason for that decline may be that vehicles are selling more quickly.<sup>14</sup> Again, this is not credible. Gumtree measures its number of live vehicle listings periodically in one-month intervals, so while cars may be listed at any time in a month, an increase in sale velocity would only have a minimal effect on Gumtree's number of live listings from month to month.<sup>15</sup> The decline in inventory experienced by Gumtree, as presented at Figure 3 of Gumtree's Application for merger authorisation, has been steady and sustained. Given that demand for cars is seasonal and typically drops off at the start of each year, it would not make sense for velocity to continually be increasing over a three-year period. Changes in velocity therefore cannot explain the consistent and ongoing decline in Gumtree's number of live listings.

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<sup>12</sup> Carsales' home page also has an option for buyers to select new/used cars, while Gumtree's homepage offers buyers the ability to click a link to perform an advanced search, although the link is not prominent, and Gumtree estimates that limited users perform advanced searches upfront.

<sup>13</sup> Carsales, Submission to the ACCC, *Gumtree AU Pty Ltd proposed acquisition of Cox Australia Media Solutions* (10 February 2020) at paragraphs 19 and 20.

<sup>14</sup> Carsales, Submission to the ACCC, *Gumtree AU Pty Ltd proposed acquisition of Cox Australia Media Solutions* (10 February 2020) at paragraph 21.

<sup>15</sup> For example, if live listings are measured on the 15<sup>th</sup> day of each month and a vehicle is listed in the last two weeks of March, it would be counted in the site's number of live listings for April. Whether the vehicle sells on the 16<sup>th</sup> day of April or the last day of April is irrelevant. The only way a vehicle would avoid being counted in the site's number of live listings were if it were listed and sold between the 15<sup>th</sup> days of March and April – however, in this case it would not be contributing to a decline in listings as it would not have been recorded in the count for March (it would simply not be counted). Listings on Gumtree expire after 45 days and so a number of listings cannot be counted repeatedly for months. Any increase in velocity would therefore have a minimal impact on Gumtree's number of live listings.



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## 4 Gumtree cannot be an effective competitor to Carsales without the transaction

### 4.1 Dominance of Carsales

As demonstrated in Gumtree's Application for merger authorisation, Carsales is overwhelmingly the dominant online automotive classifieds business in Australia, with a leading position in inventory, audience and revenue.<sup>16</sup> Indicative of its market power, Carsales is the only Australian automotive classifieds business that has the ability to operate a closed model, in which the direct contact details of dealers is not displayed, and can price on a per lead basis for used cars as a result, yet still attract the largest share of advertisers and buyers. As the Australian Automotive Dealer Association (**AADA**) submitted, this pricing model contributes to the rising prices of vehicles for buyers.<sup>17</sup> Essentially, if a stronger competitor to Carsales existed, buyers could potentially purchase vehicles at lower prices because dealers would have to pay less to advertise their stock, passing on less of their advertising costs to buyers in the prices of cars.

Carsales' ability to capture the majority of dealer spend is recognised in the AP Eagers submission, which states that across AP Eagers' 229 new vehicle dealership locations supplying new and used vehicles, 84% of total online advertising spend is spent with Carsales.<sup>18</sup> As eCG's pricing consultants Simon Kucher & Partners (**SKP**) found from their dealer surveys, although Carsales is 'more expensive, like-for like', dealers consider it to be 'indispensable'.<sup>19</sup> In addition to dealers considering that listing on Carsales is necessary because it attracts the largest audience, dealers must also subscribe to Autogate in order to access any leads generated on Carsales.<sup>20</sup>

Carsales has enjoyed the clear number one position in the market for many years, and has continued to grow despite regular price increases and attempts by Gumtree and Carsguide/Autotrader to increase their audience and inventory, as discussed in sections 4.2 and 4.4 below. Carsales 'delivered another record set of results' in the half year to 31 December 2019.<sup>21</sup>

### 4.2 Gumtree's continued declining performance despite attempts to gain a larger share of dealer inventory

With private listings in steady decline, having fallen by 17% between 2017 and 2018 and continuing to fall over the course of 2018,<sup>22</sup> Gumtree aimed to increase its dealer inventory by around **[Confidential to Gumtree]** [REDACTED] [REDACTED] [REDACTED]

[REDACTED] Between November 2019 and March 2020, Gumtree's total inventory fell further from a total of 128,601 listings in November 2019<sup>25</sup> to just 121,710

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<sup>16</sup> Gumtree's Application for merger authorisation (14 January 2020) at section 6.2.

<sup>17</sup> AADA, *Merger Gumtree and Cox Media Submission* (17 February 2020) at page 4.

<sup>18</sup> AP Eagers, *AP Eagers Ltd: Gumtree/Cox Media – Submission* (10 February 2020) at paragraph 12.

<sup>19</sup> Gumtree's Application for merger authorisation – Confidential Annex O [**SKP Report**] (14 March 2020), at page 10.

<sup>20</sup> AP Eagers, *AP Eagers Ltd: Gumtree/Cox Media – Submission* (10 February 2020) at paragraphs 22 and 23.

<sup>21</sup> Carsales, *International growth and a resilient domestic business deliver another record half for Carsales*, ASX & Media Release (12 February 2020). Note that Carsales has since withdrawn its guidance for the year due to the Coronavirus outbreak.

<sup>22</sup> Document ID GUM.0002.0001.13027 at page 29 and Document ID GUM.0002.0001.13027 at page 3.

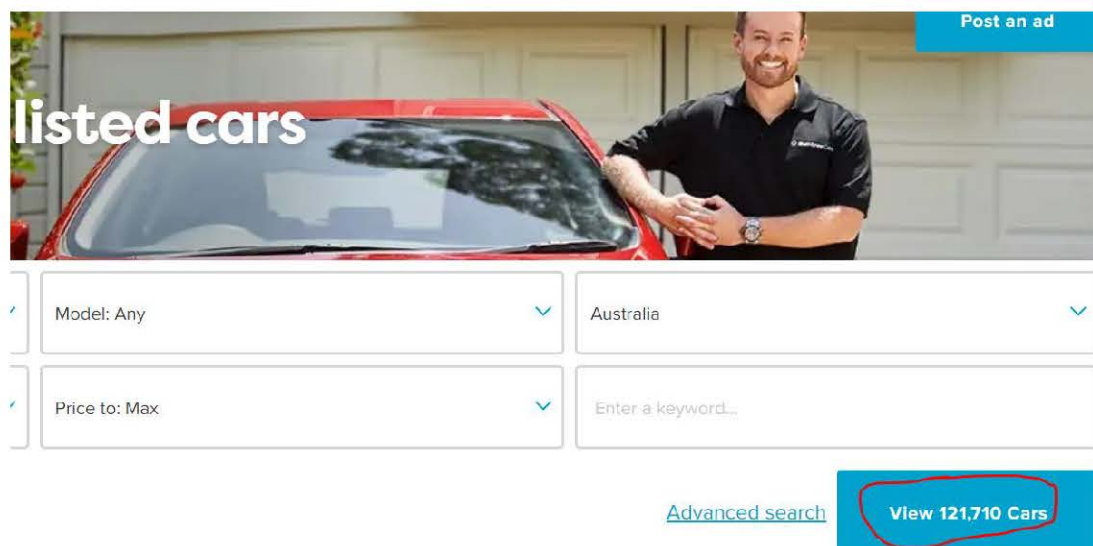
<sup>23</sup> Document ID GUM.0002.0001.15928 at page 11.

<sup>24</sup> Document ID GUM.0002.0001.31243.

<sup>25</sup> Gumtree's Application for merger authorisation – Annex N [**RBB Economics Report**] (14 March 2020). See Tables 3 and 4, where Gumtree's number of dealer listings were 50,123 and private listings were 78,478, giving a total inventory of 128,601.

listings in March 2020, as shown in Figure 1 below. This represents a decline of around 5% in a four-month period. This more recent decline in inventory has been driven by a decline in dealer listings, which have fallen by 10%, from around 50,000 in November 2019 to just 45,000 in March 2020.<sup>26</sup>

**Figure 1 Gumtree inventory as at March 2020**



As submitted in Gumtree's Application for merger authorisation, this steady decline in inventory has made the site less attractive to buyers, which has resulted in a decline in audience. Gumtree's declining inventory and vibrancy has led to an 'erosion in page views' in 2019, with desktop and tablet views declining by around **[Confidential to Gumtree]** <sup>27</sup> and Gumtree failing to capture a shift in consumer preference to apps.<sup>28</sup> Despite targets to increase traffic and active users in 2019, Gumtree's audience engagement continued to decline over the course of 2019.<sup>29</sup>

In 2019, Gumtree's financial performance hit **[Confidential to Gumtree]** <sup>30</sup>, with underperformance in the Motors part of the business being the second largest contributor behind poor vibrancy.<sup>31</sup> Gumtree's declining financial trajectory continued into the fourth quarter of 2019 and first quarter of 2020. Despite targets to increase its revenue from dealers, Gumtree's dealer revenue in Q4 2019 was **[Confidential to Gumtree]**, representing a **[Confidential to Gumtree]** decline compared to Q4 2018. This followed on from Motors dealer revenue in Q3 2019 being **[Confidential to Gumtree]** lower than in Q3 2018. The weakness is expected to continue in Q1 2020, with budgeted dealer revenue in Motors **[Confidential to Gumtree]** less than Q1 2019.<sup>32</sup>

The weakness in Gumtree's private advertiser revenue has been even more pronounced. Onsite insertion fees in the Motors category was down **[Confidential to Gumtree]** YoY in Q4 2019 compared to Q4 2018, while onsite feature fees revenue in Motors was

<sup>26</sup> Taken from the Gumtree Cars website as at 20 March 2020 by searching for all cars in Australia and then refining by Seller Type.

<sup>27</sup> In H1 2019 compared to H1 2018.

<sup>28</sup> Document ID GUM.0002.0001.60161 and Document ID GUM.0002.0001.78706 at page 6.

<sup>29</sup> E.g. Document ID GUM.0002.0001.15928 at page 11 and Document ID GUM.0002.0001.31243 at page 2.

<sup>30</sup> Document ID GUM.0002.0001.52217.

<sup>31</sup> Document ID GUM.0002.0001.31243 at page 3.

<sup>32</sup> Document ID GUM.0002.0001.03133.



down [Confidential to Gumtree] in Q4 2019 YoY compared to Q4 2018. Onsite insertion fees and onsite feature fees for the Motors category are budgeted to fall [Confidential to Gumtree] respectively in Q1 2020 compared to Q1 2019.<sup>33</sup>

Gumtree has also seen sharp declines in its display advertising revenues suggesting that it is struggling to compete with other providers like Facebook. Display advertising revenue in Q4 2019 was [Confidential to Gumtree] lower than in Q4 2018. This followed on from a Q3 result that was [Confidential to Gumtree] below Q3 2018. Display advertising revenue in Q1 2020 is budgeted to be [Confidential to Gumtree] lower than Q1 2019.<sup>34</sup>

#### 4.3 Gumtree has been extremely limited in its ability to improve its financial performance and enhance its competitive position

In an attempt to arrest this decline in financial performance, Gumtree has considered increasing prices to dealers on several occasions in recent years. This has been considered as a means of improving the financial health of the business and supporting investment in service enhancements for dealers, to allow Gumtree to compete more effectively with Carsales. Price increases have been recommended by SKP, but Gumtree has not been able to implement SKP's recommendations to their full extent, despite Carsales' pricing being significantly higher than Gumtree's. Even where more modest price increases have been implemented, this has resulted in significant dealer churn away from Gumtree. This reflects both the strength of the competitive constraint imposed by Carsales, and the weakness of Gumtree's current position in the dealer classified advertising market.

As outlined in Gumtree's response to Item 9 of Schedule 1 to the section 155 Notice, eBay's Motors Centre of Excellence retains SKP to review pricing and make recommendations for eCG entities globally. In making pricing decisions, Gumtree considers SKP's recommendation along with factors relevant to the business and the online automotive classifieds market at that time. Such factors include what Gumtree's competitors are doing, the nature of feedback received from dealers, the rates of dealer churn and the value associated with Gumtree's product offering to dealer customers. SKP provides its recommendations in a slide pack referred to as a 'Headroom Study'.

[Confidential to Gumtree] [REDACTED]

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> Gumtree's change to its value offering to dealer subscribers is set out in its response to Item 9 of Schedule 1 to the section 155 Notice.

<sup>36</sup> Document ID GUM.0002.0001.14515 at slide 27.

[REDACTED]

Gumtree's inability to sustain a price increase without losing customers is in marked contrast with Carsales' regular price rises, with Carsales' price per lead increasing by a CAGR of 6% in recent years.<sup>40</sup> Carsales' most recent round of price rises which were implemented in December 2019 saw the price of a lead for a vehicle priced at \$9,500 or above increase by 8% to \$54. The threshold at which this price applied was also lowered from \$9,500 to \$8,500, meaning that more cars now also attract the higher fee.<sup>41</sup>

#### 4.4 Carsguide / Autotrader have not been able to successfully challenge Carsales despite ongoing attempts to do so

In an attempt to more closely compete with Carsales, Cox Australia Media Solutions launched the Autotrader site in Australia, offering dealer tools and the ability to integrate with Dealer Solutions. Despite making certain pricing changes and operating with the benefit of a workforce with automotive expertise, Carsguide/Autotrader has been unable to sufficiently drive sales to challenge Carsales. As AP Eagers have submitted:

*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 Carsales.<sup>42</sup>*

As set out in the SKP report and shown in

Figure 2 below, there are still large gaps between Carsales and Carsguide/Autotrader, with Carsales' revenue from dealers being around **[Confidential to Gumtree]** that of Carsguide/Autotrader.<sup>43</sup>

<sup>37</sup> Gumtree's change to its value offering to dealer subscribers is set out in its response to Item 9 of Schedule 1 to the section 155 Notice.

<sup>38</sup> Gumtree's Application for merger authorisation (14 March 2020) at Figure 4.

<sup>39</sup> Document ID GUM.0002.0001.16529 at attachment, at slide 83.

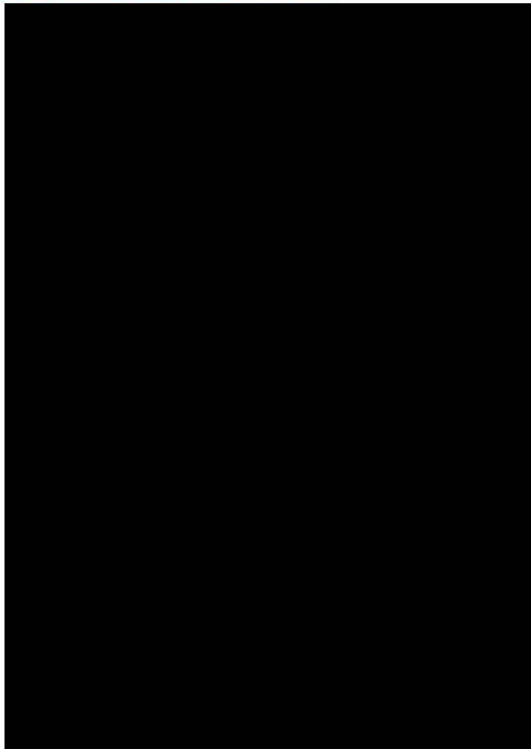
<sup>40</sup> SKP Report, at page 13.

<sup>41</sup> Gumtree's Application for merger authorisation (14 January 2020) at page 38.

<sup>42</sup> AP Eagers, *AP Eagers Ltd: Gumtree/Cox Media – Submission* (10 February 2020) at paragraph 8.

<sup>43</sup> SKP Report at page 3.

**Figure 2 Carsales and Carsguide/Autotrader (“Turbo”) revenue gap**  
**[Confidential to Gumtree]**



Source: SKP report

SKP has determined that Carsguide/Autotrader's 'current inventory market share is too low to seriously challenge the market leader', with the number of listings 'regularly the most important value driver for car buyers'.<sup>44</sup> Looking at historical data from the past three years shows that Carsguide/Autotrader 'has been unable to increase this crucial inventory level on its own', with Carsguide/Autotrader's number of dealers and live listings largely flat over the past three years as shown in Figure 3 below.<sup>45</sup>

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<sup>44</sup> SKP Report at page 17.

<sup>45</sup> See also RBB Economics Report, Table 9, which shows a decline in Carsguide/Autotrader inventory relative to Carsales.

**Figure 3 Carsguide/Autotrader active dealers and listings over time**  
**[Confidential to Gumtree]**



Source: SKP Report

With the Carsales inventory being around 1.5 times the size of Carsguide/Autotrader's for dealer listings and more than ten times the size for private seller listings,<sup>46</sup> Carsguide/Autotrader will not be able to grow its traffic and as such, cannot improve its position relative to Carsales.<sup>47</sup> This is because Carsguide/Autotrader's organic traffic has remained constant over time, while paid sessions from traffic marketing has not had a lasting impact on traffic, as shown in Figure 4 below.

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<sup>46</sup> See RBB Economics Report, Table 3 and Table 4.

<sup>47</sup> SKP Report at page 19.



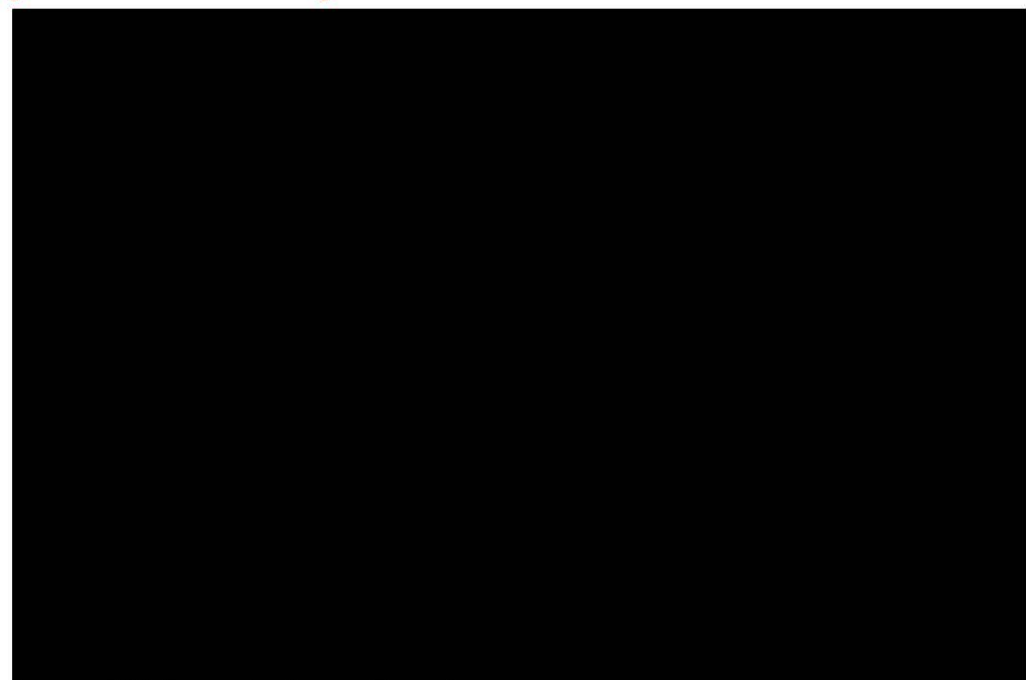
**Figure 4 Carsguide/Autotrader sessions per month (millions)**  
**[Confidential to Gumtree]**



Source: SKP Report p 20

In addition, the gap in the size of Carsales' audience relative to Carsguide/Autotrader's audience has not closed over the past two years, as shown in Figure 5 below.

**Figure 5 Monthly number of visits ('000s) (February 2018 – September 2019) - excluding Facebook Marketplace**  
**[Confidential to Gumtree]**



Source: RBB Economics Report, Figure 5

In addition, analysis from EY has also shown that Carsguide/Autotrader **[Confidential to Gumtree]**



[REDACTED] At the same time, Carsales is expected to continue to grow,<sup>48</sup> which means that the gap between Carsales and Carsguide/Autotrader would widen even further over time.

#### 4.5 Gumtree has made the assessment that absent the acquisition, neither party could challenge Carsales as the #1

Gumtree's internal documents show that in Gumtree's view, Carsales can only be effectively challenged through a merger. In particular, Gumtree's view is that a merger with Carsguide/Autotrader would put Gumtree in a position to challenge Carsales,<sup>49</sup> while also putting it in a better position to compete more effectively with Facebook Marketplace and a possible entry of CarGurus in the Australian market.

Combined with Carsguide/Autotrader, Gumtree's inventory would be roughly similar to Carsales', making Gumtree 'a realistic counter-weight to Carsales in terms of supply'.<sup>50</sup> As SKP finds, **[Confidential to Gumtree]** [REDACTED]

.<sup>51</sup>

#### 4.6 Evidence of pro-competitive benefits likely to flow from the Proposed Transaction

In January 2020, eBay launched its eBay/Gumtree/Motors.co.uk joint proposition in the UK ("the UK joint proposition"). The evidence available to date indicates that the UK joint proposition is already enhancing competition and benefitting dealers. Additionally, eBay expects the UK joint proposition to have a growing (pro-competitive) impact over the coming 12 months. Given the parallels between the UK joint proposition and the joint proposition that eBay intends to implement in Australia post-merger, this suggests that the proposed merger of Gumtree and Carsguide/Autotrader is likely to benefit competition and dealers.

(a) Background to UK joint proposition

eBay acquired Motors.co.uk, Cox's online automotive classifieds platform in the UK, in February 2019. In January 2020, it launched the UK joint proposition. The UK joint proposition is being marketed under the newly created "eBay Motors Group" dealer-facing brand. From the perspective of dealers, the UK joint proposition offers to cross-list inventory across eBay's 3 platforms (eBay, Gumtree and Motors.co.uk) and provides dealers with an accounts management team, contract, pricing and suite of dealer tools that cover all 3 platforms.

(b) The effect of the UK joint proposition is instructive in terms of the likely effect of the Proposed Transaction as:

- **[Confidential to Gumtree]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

<sup>48</sup> In the medium term following a return to normal economic conditions. In the short term, all competitors face uncertainty due to the Coronavirus pandemic.

<sup>49</sup> Document ID GUM.0002.0001.06395 at page 3.

<sup>50</sup> SKP Report at page 25.

<sup>51</sup> SKP Report at page 29.

<sup>52</sup> Gumtree would not cross-list to ebay.com.au/motors under its plans for Australia. The joint proposition would include Gumtree, Carsguide and Autotrader.

<sup>53</sup> Gumtree's Application for merger authorisation – Annex H.1.3 [Turbo Pre-Sign MAC Discussion Materials] (14 March 2020). See Turbo Pre-Sign MAC Discussion Materials - Dec 9, 2019 at page 9.

██████████ It plans to offer dealers the option to cross-list across Gumtree and Carsguide/Autotrader even sooner;<sup>54</sup> and

- the scope for a joint proposition in Australia to enhance competition is similar to that which exists in the UK. In particular, the merging parties in Australia are currently significantly smaller individually than the market leader, Carsales, just as the merging parties in the UK were significantly smaller individually than the market leader, Autotrader UK, pre-merger. To the extent that it is attractive to dealers, the joint proposition in Australia has the potential to create a more effective competitor to Carsales, just as the UK equivalent has the potential to create a more effective competitor to Autotrader UK.

Although Carsales has questioned the need for the Proposed Transaction in order to enable investment in product and service improvements by Gumtree,<sup>55</sup> it is clear from the UK experience that the greater scale that acquisition would provide would make Gumtree's planned investments more successful for Gumtree while also providing greater benefits for dealers.<sup>56</sup> While Gumtree may have taken the decision to invest in dealer products and the **[Confidential to Gumtree]** ██████████ absent the Proposed Transaction, it has made the commercial assessment that these are much more likely to be successful if combined with the merger.

- (c) The UK joint proposition is providing additional leads to existing dealer customers

A look at the number of dealers on the UK joint proposition as at 18 March this year indicates that the UK joint proposition is benefiting competition and dealers in the UK. Within the first 2 months of the UK joint proposition being available, the merged entity had attracted **[Confidential to Gumtree]** ██████████ dealers to the Joint Proposition. **[Confidential to Gumtree]** ██████████% of these dealers were pre-existing customers of eBay, Gumtree and/or Motors.co.uk. These dealers have likely gained more leads by making the switch. Indeed, eBay data on average leads per dealer in February show that dealers on the UK joint proposition got **[Confidential to Gumtree]** ██████████% more leads than those on both eBay and Gumtree, ██████████% more than those on Motors.co.uk only, **[Confidential to Gumtree]** ██████████% more than those on eBay only, and **[Confidential to Gumtree]** ██████████% more than those on Gumtree only. This increased number of leads has translated to a lower average price per lead. Dealers who previously used eBay and/or Gumtree and who have since migrated onto the UK joint proposition have enjoyed a **[Confidential to Gumtree]** ██████████% fall in their average cost per lead. eBay expects that the reduction would be even larger for dealers who have migrated from Autotrader UK. This reduction in average price per lead is as a consequence of more leads being generated for each ad with the UK joint proposition, than prior to the merger, demonstrating the improvements in product and greater value enabled by the merger.

- (d) The UK joint proposition is attracting new dealer customers thereby enhancing competition against rivals

**[Confidential to Gumtree]** ██████████  
██  
██  
██

<sup>54</sup> Turbo Pre-Sign MAC Discussion Materials at page 19.

<sup>55</sup> Carsales, Submission to the ACCC, *Gumtree AU Pty Ltd proposed acquisition of Cox Australia Media Solutions* (10 February 2020) at paragraphs 29-35.

<sup>56</sup> Gumtree's Application for merger authorisation (14 March 2020) at section 3.5(d) and 8.5(a).



██████████<sup>7</sup> These dealers could have relied entirely on (or continued to rely entirely on) rivals to eBay, such as Autotrader, but instead have chosen to place their listings (or at least some of their listings) on eBay by opting for the UK Joint Proposition.

(e) Additional dealer benefits from the UK joint proposition

As well as additional leads, the UK joint proposition offers dealers other benefits that they previously could not avail themselves of, even if they listed separately with all 3 platforms.

- Dealer Centre: Provides a suite of dealer tools (stock management, reporting, invoicing) covering listings on all 3 platforms.<sup>58</sup>
- Leads distribution: All email leads generated on the 3 platforms are sent directly to the dealer's inbox.<sup>59</sup>
- Call tracking: A tracked local landline number is displayed on the dealer's listing. Missed calls and call durations are then sent to the dealer to help them track their leads.<sup>60</sup>

eBay intends to roll out similar features in Australia as well, as part of its Australian joint proposition.

(f) The full impact of the joint proposition on competition is likely to be much greater

Finally, it is worth emphasising that the UK joint proposition is very new and therefore its full impact on competition in the UK market for dealer listings has yet to be felt. eBay's forecast for calendar year 2020 is that the UK joint proposition will steadily attract dealers and that there will be around **[Confidential to Gumtree]** ██████████ dealers on the UK joint proposition by the end of the year.

#### 4.7 The benefits resulting from creating an effective competitor to Carsales outweigh any benefit of maintaining multiple ineffective competitors failing to constrain Carsales

At paragraph 2.21 of the ACCC's Statement of preliminary views, the ACCC states:

*The ACCC considers that Carsales is likely to impose a significant competitive constraint on Gumtree post-acquisition. However, as discussed above, many dealers choose to multi-home (list vehicles on more than one platform) to maximise audience and the likelihood of selling the vehicle. Therefore, while Carsales is the primary choice for most dealers, other platforms are likely to compete against each other, especially for dealers that want to advertise on more than one platform, or as an alternative to Carsales. In this respect, the proposed acquisition will reduce the number of competitors, and limit choice for dealers, by combining two of the largest online automotive classified platforms in an already concentrated market.*

<sup>57</sup> eBay invested heavily to promote awareness of the UK joint proposition among dealers that do not already use one of its 3 platforms. For example, eBay Motors Group sponsors The Armchair Show and Motor Trade Radio podcasts (of which the former has had 65,000 views and downloads, while the latter has had 5,729 listens to date in 2019), and advertised on the front cover of the February edition of Motor Trader, a magazine for car dealers and manufacturers.

<sup>58</sup> <https://www.ebaymotorsgroup.co.uk/advertising-packages/>.

<sup>59</sup> [https://www.ebaymotorsgroup.co.uk/sites/Live/ebaymotorsgroup/pdfs/emg\\_packages.pdf](https://www.ebaymotorsgroup.co.uk/sites/Live/ebaymotorsgroup/pdfs/emg_packages.pdf).

<sup>60</sup> [https://www.ebaymotorsgroup.co.uk/sites/Live/ebaymotorsgroup/pdfs/emg\\_packages.pdf](https://www.ebaymotorsgroup.co.uk/sites/Live/ebaymotorsgroup/pdfs/emg_packages.pdf).

As a matter of general principle, a reduction in the number of competitors will not necessarily lead to a lessening of competition, particularly if it results in a merged entity that is a more effective and vigorous competitor. As Middleton J stated in the recent *Vodafone Hutchinson* decision, it is not necessarily the number of competitors that are in the relevant market, but the quality of competition that must be addressed.<sup>61</sup>

Gumtree considers that, by creating a more effective competitor to Carsales, the Proposed Transaction will promote competition. With the benefit of positive network effects driven by cross-listing, integration and an increase in marketing investment, the merged entity will be able to compete more effectively with Carsales, by improving the quality of its service offering. This, in turn, is likely to prompt a competitive response from Carsales that would not otherwise occur. These pro-competitive benefits will outweigh any potential detriment associated with a reduced number of competitors.

The ACCC has identified two possible scenarios in which the Parties may currently compete, and where there may be a loss of choice for dealers if the Proposed Transaction were to proceed: (a) where dealers multi-home; and (b) where dealers want an alternative to Carsales. These two scenarios are addressed below. In each scenario, a reduced number of competitors will not result in a substantial lessening of competition.

(a) Multi-homing dealers

(i) Dealers multi-homing with both parties

Whether sites compete for the business of multi-homing dealers depends on the nature of multi-homing activity.

Competition between sites may occur where a multi-homing dealer lists the same (or similar) inventory on multiple sites. In this case, if a dealer lists on Carsales and Gumtree, and receives a lead from a potential buyer on Carsales, then it is less likely that that same potential buyer would also generate a lead on Gumtree (and vice versa). In this scenario, therefore, the two platforms compete to deliver leads to the same dealer.

On the other hand, where dealers place different stock on different platforms (e.g. because one is better for selling older, cheaper cars and the other is better for selling newer, more expensive cars) then multi-homing occurs but competition is more limited because the platforms are differentiated.

In this regard, Gumtree has substantiated that the stock listed on the Parties' sites is differentiated, meaning that competition between them is limited.<sup>62</sup> This is supported by the AADA which submitted that "Gumtree and Cox Media largely cater to different markets with Gumtree carrying predominantly private sales and Cox Media... attracting buyers looking to purchase from licensed traders".<sup>63</sup>

In other words, where dealers multi-home on both Gumtree and Carsguide/Autotrader, the two platforms are likely to be seen as complementary to each other (in the sense that Gumtree and

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<sup>61</sup> *Vodafone Hutchison Australia Pty Ltd v Australian Competition and Consumer Commission* [2020] FCA 117 at [11]. The judgment went on to state at para 71 that it should not be taken for granted that a world with TPG as a fourth Mobile Network Operator is substantially more competitive than a world without Vodafone and TPG merged. By similar reasoning, an online automotive classifieds market with Gumtree and Carsguide/Autotrader as independent competitors is not necessarily more competitive than the market with them merged.

<sup>62</sup> RBB Economics Report at section 6 (Annex N to Gumtree's Application for merger authorisation).

<sup>63</sup> AADA, *Merger Gumtree and Cox Media Submission* (17 February 2020) at page 3.



Carsguide/Autotrader largely target different user groups). In many cases, dealers would not be choosing between the two platforms for listing of particular stock. Therefore, the Proposed Transaction would not reduce choice for these dealers – rather it would merely bring together two platforms targeting largely different user bases.

To put in further perspective the extent to which dealers list on both Parties' sites, Gumtree has analysed November 2019 Autobiz data for used car dealers. This indicates that 18% of used car dealers (32% when weighted by their total used car inventory) list with both Parties. The percentage would be substantially smaller if Autobiz data included new car dealers as well. This compares with 11% of used car dealers (25% inventory-weighted) that list with both Parties and Carsales.

The implications for the competitive effects of the Transaction are as follows:

- Of those used car dealers who list with both Parties, most also list with Carsales (i.e. 60% of dealers, 79% inventory-weighted). Post-merger, these dealers are expected to gain because (i) the merged entity will remain constrained by the “significant competitive constraint” from Carsales, while, at the same time, (ii) the post-merger efficiencies will mean that Carsales itself faces greater competition from the merged entity to serve those dealers.
- The remaining dealers (using both the Parties but not Carsales) cover only a small part of the market, accounting for just 7% of used car dealers (7% inventory-weighted). The number who would see Carsguide/Autotrader as an *alternative* to Gumtree (rather than a complementary offering that permits wider reach) is likely to be much smaller than this, for reasons outlined above. Moreover, Gumtree strongly expects that many, if not most, of these dealers would also list – for free – on Facebook Marketplace (which is not covered by the Autobiz data), and in any event Carsales would continue to be another alternative for them.

(ii) Other multi-homing dealers using the Parties

20% of used car dealers (28% inventory-weighted) multi-home using Carsguide/Autotrader and a platform other than Gumtree. In nearly all cases (95% of dealers, 97% inventory-weighted) these dealers also list with Carsales.

Likewise, 6% of used car dealers (7% inventory-weighted) multi-home using Gumtree and a platform other than Carsguide/Autotrader. In nearly all cases (88% of dealers, 90% inventory-weighted) these dealers also list with Carsales.

In these cases, dealers are currently using just one of the Parties. The scope for these dealers to move to the Joint Proposition post-merger (and, as a result, list to a lesser degree with Carsales) should therefore sharpen Carsales' incentives to offer better terms post-merger.

(b) An alternative to Carsales

The ACCC indicates that the Parties (and other platforms) could separately compete to be an “alternative to Carsales”. Gumtree emphasises that, at present, the Parties (and other platforms) are individually poor alternatives to Carsales due



to weak and declining network effects: a key rationale for the deal is to become a better alternative to Carsales. In this respect Gumtree believes that the Proposed Transaction increases competition and choice for dealers, as a result of the positive network effects and merger specific investments that will make the combined entity a stronger rival than either Carsguide/Autotrader or Gumtree individually.

(i) Single-homing dealers

It might be argued that some single-homing dealers would lose the benefit of competition between the Parties, in the event that they chose not to use Carsales and were seeking an alternative. For example, it might be argued that single-homing dealers choose a platform sequentially, asking themselves the following questions:

- 1 If I choose to single-home, shall I list with Carsales?
- 2 If I have rejected Carsales at Step 1, shall I list with Carsguide/Autotrader or Gumtree?

In the above case, it might be argued that at Step 2 there is competition between the Parties to be the “alternative to Carsales” for single-homing dealers.

However, this inference would be incorrect. A dealer’s decision at Step 1 will be determined by all of the offers available on the market: a dealer’s decision whether to use Carsales at Step 1 would depend on whether it could get a better offer from competitors to Carsales, including leads which convert into sales within the timeframe dealers need. Put simply, it is a single decision made by dealers, in which the Parties compete directly with Carsales to be the dealer of choice.

Dealers will benefit from having a better alternative to Carsales in making this single decision as the merged entity will be able to offer a better return on investment than the individual businesses separately. This will be a better outcome for dealers than choosing between a dominant Carsales and two weaker alternatives, with more single-homing dealers likely to decide not to list with Carsales post-transaction.

In practice, the Autobiz data indicates that most single-homing dealers do so with Carsales (26% of used car dealers, 15% inventory weighted). This compares to 13% for Carsguide/Autotrader (6% inventory weighted) and 13% for Gumtree (7% inventory weighted). In this sense, Carsales is currently the preferred platform for single-homing dealers.

Dealers that currently single-home with Carsales will benefit from improved choice as the merged entity becomes a better alternative to Carsales (and from any competitive response by Carsales). Further, dealers that single-home with one of the Parties will, after the merger, be offered the opportunity to cross-list on the other Party’s site, thereby gaining an uplift in audience and leads. This will improve the quality of their single-homing experience with the merged entity.



automotive classifieds providers with respect to dealer listings as well as private advertiser listings.

Facebook Marketplace is also able to leverage the success of the Facebook social media platform and engage in behaviour to attract dealer advertisers with no monetisation, for example, offering dealer feeds for free. Gumtree's 2019 Q2/3 acquisition campaign brief referred to push-back from dealers due to Facebook being free and delivering a lot of leads.<sup>68</sup>

Facebook Marketplace has been identified as a threat to online classifieds on a global scale by eCG. **[Confidential to Gumtree]** [REDACTED]

[REDACTED]

- [REDACTED]

- [REDACTED]

[REDACTED]

[REDACTED]

The engagement in such projects and the consideration at an eCG level of the necessary response, demonstrate the disruptive nature of Facebook Marketplace on online classifieds markets, including the automotive classifieds market.

## 5.2 Facebook is not just a channel for the distribution of other platform's advertisements (as indicated in Carsales' submission) – it is a competitor in its own right

As referred to above, Facebook Marketplace has significantly impacted the online automotive classifieds market since its entry in Australia. Gumtree considers Facebook

<sup>68</sup> Document ID GUM.0002.0001.56130.

<sup>69</sup> Document ID GUM.0002.0001.93927.

<sup>70</sup> Document ID GUM.0002.0001.93927, attachment titled 'Facebook Motors Assessment\_Draft II' at slides 13, 14 and 17.

<sup>71</sup> Document ID GUM.0002.0001.93927.

<sup>72</sup> Document ID GUM.0002.0001.22790.

<sup>73</sup> Document ID GUM.0002.0001.04095 at slides 28 and 29.



Marketplace to be its closest competitor, noting that it has had a greater impact on Gumtree's private listing inventory than any other factor.

Although Facebook Marketplace provides an additional distribution channel for listings on other sites, its impact on the market demonstrates that it cannot be a mere distribution channel.

Gumtree documents acknowledge the threat that Facebook Marketplace brings to the online automotive classifieds market in its own right. As Gumtree is not a "necessity" like Carsales, it is now fighting with Facebook Marketplace to secure additional dealer budget.<sup>74</sup>

### 5.3 Facebook Marketplace is rapidly taking market share

Since its entry into the market, Facebook Marketplace has grown rapidly and taken share from Gumtree in particular, which is Facebook Marketplace's closest competitor.<sup>75</sup> eBay Classifieds Group has recognised that Facebook Marketplace "has developed traction and is a serious alternative for C2C".<sup>76</sup> As at 2019, Facebook Marketplace's growth was outpacing Gumtree's growth in cars, trucks and motorcycles.<sup>77</sup>

Facebook Marketplace now has a similar automotive inventory to Gumtree. While no data is available on its Facebook Marketplace audience, Gumtree is aware from qualitative feedback that buyers are increasingly using Facebook Marketplace and that this has made the platform more attractive for dealer and private advertisers.

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## 6 Display advertising

### 6.1 Market definition

In Gumtree's Application for merger authorisation, Gumtree submitted that there is a national market for the supply of online display advertising. This is because the parties place display advertising for a wide range of goods and services, while acquirers of online automotive display advertising, including car manufacturers, insurers and financiers, have many options, including editorial sites and non-specialist automotive websites, to advertise their products.<sup>78</sup>

Gumtree estimates that approximately [Confidential to Gumtree] % of advertisements on Gumtree's site are displayed on the Gumtree Cars section of the site, while [Confidential to Gumtree] % of advertisements on Gumtree's site relate to vehicles and vehicle-related products.<sup>79</sup> Generally ads are placed across the Gumtree site and Gumtree does not separately measure display advertising revenue in relation to the Cars portion of the Gumtree site.

Gumtree mostly sells displaying advertising space on its website through programmatic platforms, through Google AdEx and other providers. Selling advertising space in this way occurs through an intermediary, which will utilise data to deliver the most relevant advertisements to viewers, taking into account viewers' online history. Programmatic advertising leads to an outcome where in most cases, the display advertising that is

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<sup>74</sup> Document ID GUM.0002.0001.56130.

<sup>75</sup> Document ID GUM.0002.0001.43519.

<sup>76</sup> Document ID GUM.0002.0001.04095 at page 3.

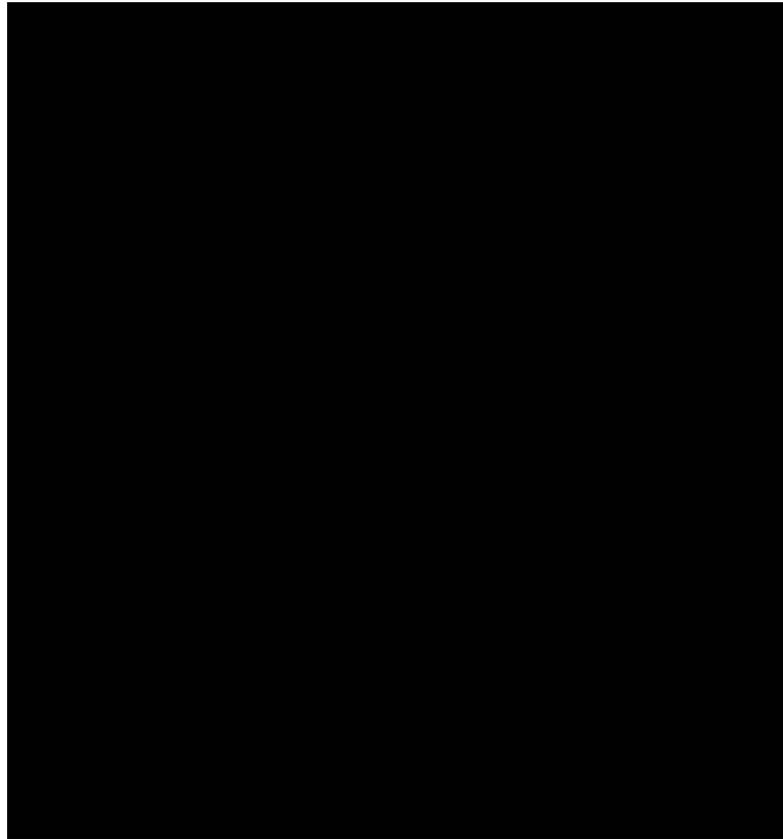
<sup>77</sup> Document ID GUM.0002.0001.04095 at page 26.

<sup>78</sup> Gumtree's Application for merger authorisation (14 January 2020) at pages 13, 58 and 78.

<sup>79</sup> See Gumtree's response to item 14 of Schedule 1 to the section 155 Notice.

placed on the site is not automotive related.<sup>80</sup> As shown in Figure 6 below, none of Gumtree's top ten display advertisers as at December 2019 were automotive related.

**Figure 6 Gumtree's top display advertisers for 2019 as at December 2019**  
**[Confidential to Gumtree]**

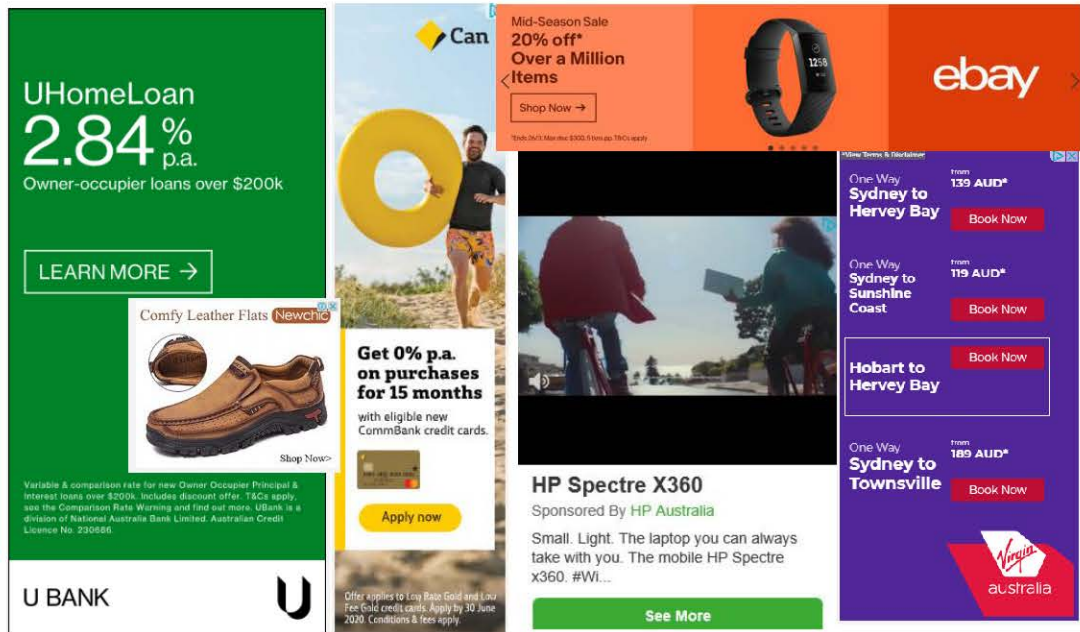


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<sup>80</sup> Further information regarding programmatic advertising is set out in Appendix III of Gumtree's Application for Merger Authorisation dated 14 January 2020 at page 100.

Figure 7 below contains examples of the wide range of non-automotive related display advertisements on the Gumtree Cars site when visited on 20 March 2020.

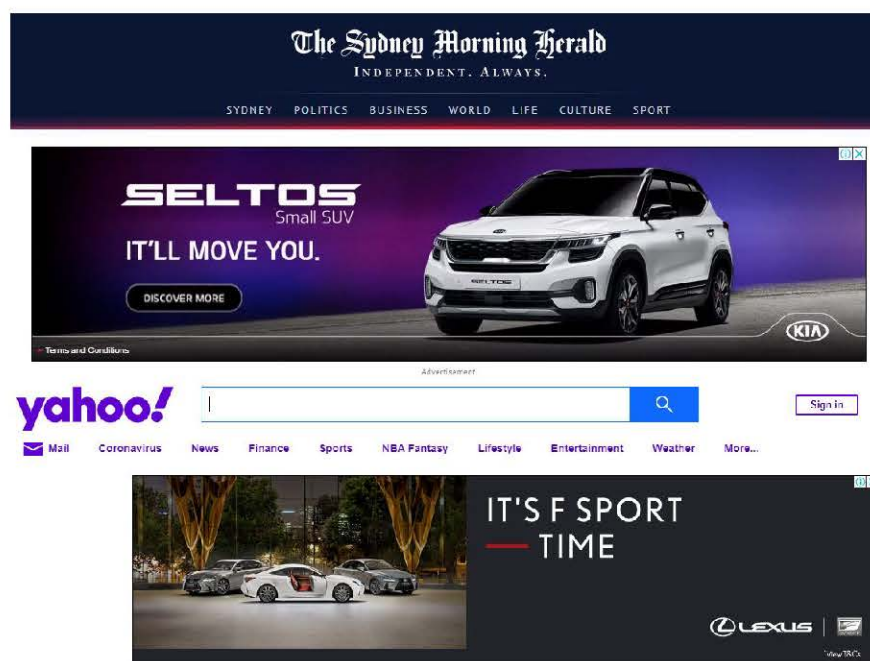
**Figure 7 Examples of display advertising on Gumtree Cars as at 20 March 2020**



Automotive-related advertisers have the option to advertise on non-automotive related websites, which are substitutable for display advertising on automotive classified websites, particularly where cookies and other tracking data is used to strategically place display advertising to users who are more likely to be interested in automotive-related content. For example, Figure 8 below contains examples of automotive-related display advertisements on the Sydney Morning Herald and Yahoo sites when visited on 20 March 2020.



**Figure 8 Automotive-related display advertising on non-automotive related sites**



For automotive-related advertisers, online display advertising space is also arguably substitutable with other channels, including TV, radio and print. Gumtree believes that if it were to raise its prices for display advertising, automotive advertisers would switch away to other, non-automotive classified digital channels and even offline channels. Although the Carsguide/Autotrader sites have a large proportion of automotive related display advertising, this is due to its strong relationships with Original Equipment Manufacturers and is not indicative of whether those automotive advertisers are also advertising on other generalist sites or even other channels. A finding that there is a separate market for online display advertising on automotive classified sites does not take into account the much wider range of options that automotive advertisers have available to them and that they in fact use.

Gumtree submits that for these reasons, a national market for the supply of online display advertising should be the relevant market definition, rather than a national market for the supply of online display advertising on automotive classified platforms specifically.

## **6.2 Regardless of the definition adopted, Gumtree faces significant constraint in any market for display advertising**

If the market definition were to be narrowed, Gumtree submits that it would be more appropriate for that market to be the market for online display advertising to automotive purchasers of display advertising, rather than a national market for display advertising on automotive sites. According to a report compiled by PwC, the general display advertising market in Australia was worth \$3.5b in the calendar year 2019 and of this, 21.5% is attributable to expenditure by automotive display advertisers as shown in Figure 9 below.<sup>81</sup>

<sup>81</sup> PwC, *IAB Australia Online Advertising Expenditure Report for the calendar year and quarter ended 31 December 2019*, at pages 4 and 16.

**Figure 9 Top five industry categories for reported general display by expenditure type**



Reported General Display market refers to General Display expenditure reported by survey contributors and therefore excludes Facebook, Google, Twitter, Snapchat, Spotify and LinkedIn General Display advertising.

**Source:** IAB Australia Online Advertising Expenditure Report

This would put a market for online display advertising to automotive-related advertisers at a value of \$752.5m. In 2019, Gumtree generated [Confidential to Gumtree] \$[redacted] in display revenue advertising<sup>82</sup> and estimates that around [Confidential to Gumtree] \$[redacted] of this would have been expenditure by automotive advertisers.<sup>83</sup> In FY19, Carsguide/Autotrader generated [Confidential to the Parties] \$[redacted] in display advertising revenue, with most of this being expenditure by automotive advertisers.<sup>84</sup> This would give Gumtree a less than [Confidential to Gumtree] [redacted] share and Carsguide/Autotrader a less than [Confidential to Cox] [redacted] share in a national market for online display advertising to automotive advertisers. Further, this result is an overestimate as it excluded data from Facebook.

If the ACCC were to find that there is a market for the supply of online display advertising on automotive classified platforms, there would not be any substantial lessening of competition in that market. As discussed above, most of the display advertising on the Gumtree site does not relate to automotive-related content, meaning that there would be minimal overlap with the Carsguide/Autotrader sites. Further, as detailed in section 4.2, Gumtree has experienced sharp declines in its display advertising revenue which demonstrates its weak position in the market.

Regardless of the way the market is ultimately defined, Gumtree will continue to be constrained in any market for display advertising by Google, through which most advertisements are placed, and Facebook, which has significantly grown its presence in digital display advertising in recent years at the expense of platforms like Gumtree. As the ACCC Digital Platforms Inquiry found, Facebook collects more than half of the national display advertising revenue.<sup>85</sup> Advertisers are particularly attracted to Facebook's ability to use geo-targeting and other data available to Facebook from its larger social network audiences to deliver relevant advertising to consumers who are more likely to be interested in the advertiser's product. For example, Facebook offers dynamic ads, which

<sup>82</sup> Document ID GUM.0002.0001.03133 with USD revenues converted to AUD at the fixed 2020 plan rate of 0.69USD/AUD.

<sup>83</sup> See 6.1 which refers to an estimated [Confidential to Gumtree] [redacted] % of total display advertising revenue being attributable to display advertising by automotive advertisers.

<sup>84</sup> Gumtree's Application for merger authorisation (14 January 2020) at page 60. Gumtree does not have data on Carsguide/Autotrader's CY2019 display advertising revenue.

<sup>85</sup> ACCC, *Digital Platforms Inquiry* (Final Report, 26 July 2019) at page 98.



'automatically show the right products to people who have expressed interest' on an advertiser's website, app or elsewhere on the Internet.<sup>86</sup> Facebook also specifically offers automotive dynamic ads and promises to show a seller's 'most relevant vehicles to potential vehicle buyers', as shown in Figure 10 below:

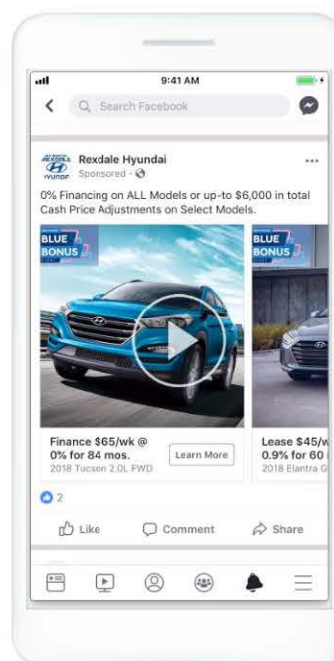
**Figure 10 Facebook automotive inventory ads**

Automotive inventory ads (previously Dynamic ads for automotive)

Show the perfect makes and models to potential car buyers

Upload your vehicle catalogue with details such as make, model and year, then automatically generate ads that show the most compelling inventory to the right audiences. Use automotive inventory ads to direct people toward vehicle detail pages, lead submission forms or other valuable places – and continually show your most relevant vehicles to potential vehicle buyers.

Learn how to create Facebook automotive inventory ads.



Source: <https://en-gb.facebook.com/business/ads/dynamic-ads>

In the face of such significant competition from Google and Facebook and considering the differentiation between the display advertising profile of the parties, the Proposed Transaction could not result in a substantial lessening of competition in relation to display advertising, however the relevant market is defined.

## 7 Conclusion

On the basis of the information provided by Gumtree in its Application, in response to its section 155 Notice and supplemented by this submission, it is clear that the Proposed Transaction will have pro-competitive effects which far outweigh any detriment as a result of the removal of competition between the parties to attract dealers who, for the most part, consider Carsales to be indispensable. The other material public benefits identified by Gumtree in its Application, including synergies and efficiencies and customer benefits, as acknowledged by the ACCC, add to these pro-competitive effects to clearly weigh in favour of the authorisation of the Proposed Transaction on either net public benefits or no substantial lessening of competition grounds.

Gumtree submits that there is no information provided in market feedback, as reflected in the ACCC's Statement of Preliminary Views, that credibly suggests that the Proposed Transaction would not be likely to result in net pro-competitive effects or deliver public benefits.

<sup>86</sup> Facebook, *Dynamic ads: Personalise your ads without the manual work*, <<https://en-gb.facebook.com/business/ads/dynamic-ads>>.