



Record of Oral Submission

Matter name	Graco Australia RPM Notification
ACCC parties	David Hatfield, Jaime Martin, Gemma Smith
TRACKIT No	RN10000461
Other parties	Wagner: Mark Crotty
Date	Thursday, 8 th June 2023
Time	03:00 pm

Phone to **Phone from** **Meeting** **Other**

The ACCC requested the meeting with Wagner to discuss the likely impact of Graco Australia’s resale price maintenance notification and the paint spraying equipment market in Australia more generally. The following information was discussed:

Background on Wagner

Wagner is a not-for-profit organisation and is operated by two foundations. Wagner is headquartered in Germany and has large operations in the EU and US and the developing Asia/Pacific region. Wagner innovations and designs focus on spray equipment for consumers, contractors, commercial painters and the commercial infrastructure segment (e.g, application of protective coatings such as for the restoration of bridges, ships, silos etc). Wagner also is a leading global supplier of industrial surface finishing systems with extensive experience in a wide range of sectors. Whether complete systems or single components. Sectors include automotive, wood and MDF, protective coating, household appliance or agriculture, construction and transportation sectors.

Wagner is the consumer, contractor and industry brand whilst Titan is a contractor brand. In Australia, the business is known as Wagner who sells and distributes both the Wagner and Titan range of spray equipment predominantly to consumers, contractors, commercial painters and the commercial infrastructure segment. As the economies of scale achievable in Australia are not sufficient to sustain investment under each brand (which is the approach taken in the US) generally the focus is on Wagner with Titan brand being used in some niche applications (e.g., Road/Linemarking).

Wagner's sales in Australia are to resellers. These resellers then on-sell to the end user typically defined as consumer (i.e., house owner), painting contractors (residential and commercial) and commercial infrastructure applicators (i.e., protective coating users). The large majority of Wagner's portfolio in Australia is equipment that spray textures and coatings. Wagner also sells some preparation equipment and accessories that aid in painting.

Paint sprayer market

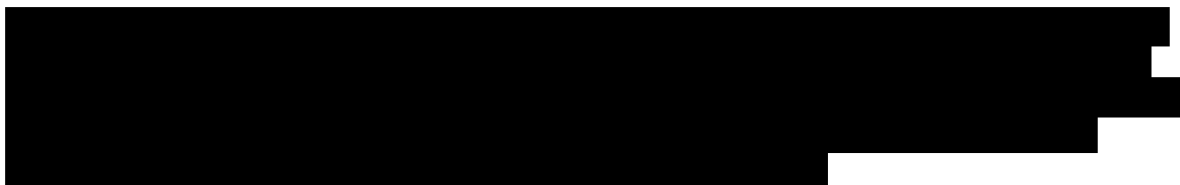
The market can be divided into consumer and contractor (commercial/trade equipment):

- The consumer segment consists largely of equipment that generally cost up to \$1500. Most paint equipment for this consumer segment is around \$100-\$300.
- Contractor equipment starts at \$1,500 RRP and upwards. These products can range up to \$14,000 RRP predominantly for the contractor residential/commercial painter. Other niche markets may require equipment, especially in some protective/adhesive coatings material, which can be more expensive.

Serious consumer/entry level trade could be considered its own segment (i.e., serious DIY, hobbyist, large rural property owners, the maintenance segments - Jims, Hire a Hubby etc and/or another trade that doesn't spray often). The segment may buy in the upper level of the consumer segment (>\$300 <\$1500) or the lower level of the contractor segment (entry level trade).

Wagner is heavily invested and committed to both segments, with focus on engineering, product development, design, innovation, promotion/advertising and ongoing training in that ultimately results in a satisfied end user.

Wagner considers one of its strengths is in the consumer segment and invest heavily in product development, promotion and support of its major partner resellers. Wagner is also strong in contractor and invests significantly in this segment as well (similar to the consumer segment).



Positioning and pricing

Wagner does set RRPs and publishes those publicly. Resellers hold Wagner accountable with respect to the price matching that occurs if their margins are impacted. Wagner manages and monitors this closely across both consumer and contractor segments.

Wagner noted that resellers have price monitoring mechanisms in place and will then discuss with Wagner the margin pressures if margins are impacted.

'Online only' retailers typically sell low volume but can reduce the value of the brand by offering aggressive pricing and therefore reducing resellers margins, whilst at times providing limited pre-sale information, service and after-market support. Other resellers who are invested in the category are generally dissatisfied with this scenario.

Wagner doesn't have formal policies or strategies in place in that regard, but values 'bricks and mortar' resellers recognising their investment in the category (i.e., stock, training and after sales service).

Wagner will continue to try and manage this going forward with responsible distribution and channel management of products. This comes at a significant cost to Wagner to implement such measures as it involves a significant investment in process change and stock.

Contractor segment products

Wagner's best resellers are the ones that have the most competent salespeople on the retail floor who can communicate the features and benefits of the products to the end user and recommend the right equipment for the job.

Wagner is very interested in resellers technical competency and ensures they have a good foundational understanding of the products. Wagner receives a lot of requests for training from resellers and at times end users. Well trained staff add a lot of value in the sales process, and it really helps if they can talk confidently about spray application.

Wagner considers the American market is more mature in terms of spray-adoption with the majority of end users spraying compared to the Australian market. There is more opportunity in Australia to convert people from brush and roller to spray application. To achieve this, the sales conversion requires knowledge. Paint specialists, hardware retailers and other industry specialists that have such knowledge and are invested in the category of spray will secure the sale compared to competitor resellers that are not invested.

Wagner continues to invest heavily to support resellers. An example of this is the Innovation Academy built last year in Hallam (VIC) especially for the purpose of training and increasing both resellers and end users' knowledge with regards to spray application. Resellers rely on Wagner for that training. Many stores don't have the ability to demonstrate spray equipment in their stores, so Wagner puts up a temporary booth or trailer for training often at events arranged at store level (i.e., trade days, breakfast, demo days etc)

Resellers that have invested in stock, and offer after-market service (i.e., a service centre) within their network are well positioned to secure contractor equipment sales, paint sales (in the case of those stores that sell paint) and on-going servicing needs. This provides the end user a one-stop-shop for all their needs. Often, the price of equipment can be heavily discounted, potentially matching/beating online pricing, but also because it assists in securing the end users ongoing paint and accessory requirements and servicing needs.

Market

Wagner considers most resellers selling contractor-level equipment (which is predominantly paint resellers and industry specialists) would likely sell Wagner/Titan and other competing brands [REDACTED] In particular, Wagner observes:

- Historically (approx. 10 years ago) there was more single brand stocking within the paint resellers, but that has changed since then. There is now a lot more 'dual ranging' occurring. Some paint resellers may also have a bigger weighting of one brand compared to the other, but approx. 80% of stores in the paint channel stock two or more brands. Often the third brand is an 'entry level' predominately Chinese manufactured sprayer and resellers may only carry one or two of such products.
- In the hardware channel, which carries mostly the consumer range of products, Wagner is the preferred brand given Wagner's investment and innovation in this

segment compared to its competitors, and Bunnings is a preferred partner. Wagner's competitors are more aligned to other 'bricks and mortar' and online resellers that compete with Bunnings. Again, one or two 'entry level' predominately Chinese manufactured sprayers may also be ranged.

- In hardware/consumer channels, multi-brand stocking of the major brands is rare.

Wagner's innovation/investment and support of 'bricks and mortar' retailers compared to that of its competitors means these resellers have the most suitable range to meet the consumer end user.

Sales process

When discussing equipment with customers, Wagner's expectation is that the salesperson would ask things like:

1. What the project is?
2. How often will you be spraying?
3. What other projects do you normally undertake?

Therefore, understanding how many litres per annum and what material they are likely to spray. This enables them to guide the end-user to the right equipment that will suit their needs, their volume and in some cases the variety of work to be completed. Additionally, the salesperson would outline important safety measures and set up, clean up and preventive maintenance processes.

For example, if you are restoring an old building such as a grand hotel with wrought iron fences, you'd need different applicators such as electro-static technology. The salesperson should also convey the benefit of spray equipment compared to rollers, referring to labour/time savings and quality of finish.

You need to know this to recommend the right equipment for the project. Wagner is of the view that if more stores had more knowledgeable people on the floor, more equipment would be sold and more end user satisfaction would be a result. Stores also have a reasonably high turnover in staff, so training is ongoing. A storeperson level of confidence needed to sell equipment will be learnt and developed over time.

Wagner considers that physical demonstrations, where possible, assist but not a lot of resellers have the proper facilities. Wagner completes a lot of trade shows and training events that include demonstrations – in excess of 100 a year. In most cases the stores sales process won't involve a demonstration.

Wagner provides an extensive amount of digital material online and offers after-sale service and technical support and has approx. 71 authorised service centres that assist with this. Some issues can be troubleshooted over the phone but if basic troubleshooting does not solve the problem, the end user would be referred to an authorised service centre. Contractor Paint equipment should be serviced regularly (i.e., every 6 months on avg. depending on use).

Service centres that are also able to demonstrate physical spraying, the assembly process, the start-up process and the clean-up process add credibility to the sales process and gives the end user great confidence in the product they have purchased.

Introduction of the minimum advertised price (MAP) policy

In the US, Wagner has a MAP policy which is very similar to what has been proposed in the current notification.

Wagner competes with Graco in Australia. The introduction of a MAP would also be advantageous to the wider industry in general. The MAP policy would assist to protect reseller margins and support the value offered by resellers who are invested and offer pre-sale advice, after sales support and service.

An increase focus on Wagner may occur as a result of MAP introduction which may have various outcomes. Potentially resellers may aggressively discount Wagner more than what occurs currently which would further decrease the value of the Wagner brand and resellers margin. If that is the case, Wagner would consider a MAP policy to address this and consider lodging an RPM notification like what is being proposed.

[REDACTED]

[REDACTED]

Discounting

Wagner would prefer the value of its equipment upheld, not devalued by aggressive pricing both in 'bricks and mortar' or 'online' resellers. This practice can minimise the margins to the point that some resellers will potentially decrease their investment in the spray category.

Wagner considers it is unlikely that large volumes of equipment are being purchased online although the sum of many 'online stores' would add-up but still make up the minority of sales. Generally, the majority of equipment is bought in store, whether in the contractor or consumer segment.

Spray equipment are technical products – if an end user hasn't sprayed before, buying equipment online would be unlikely as end users predominantly research thoroughly before purchasing, often talking to peers, to store staff, viewing physical product and asking knowledgeable staff. If end users know what they want, there might be a greater tendency to buy online but that would likely be a relatively low share of the total sales of spray equipment. Even in the much more mature market of the US, it is understood most of the business is conducted in store.

Contractor range

In the majority of cases Wagner and Graco offer similar products – it is analogous to Fords and Holdens. The products are extremely similar and the difference between the two brands in the contractor pumps is relatively minor (although some differences do exist with respect to technologies, maintenance requirements etc).

Likely impact of the MAP policy on consumers

Wagner considers the majority of equipment is bought in store and the online space is the minority of sales. [REDACTED] The MAP would favour 'bricks and mortar' resellers that have relationships with end-users, as they can continue to be aggressive with their pricing in-store. Those end users will still be able to walk in and negotiate a price in store when getting their paint material requirements.

These resellers would still offer aggressive pricing on equipment to painters in store. But the MAP policy would eliminate the aggressive price matching that occurs from online stores not offering a 'like for like' sales processes and after-market services.

'Bricks and mortar' stores especially those selling paint, are likely to continue to compete aggressively for not only spray equipment, but for paint, accessories and ongoing service needs. [REDACTED]