



Record of oral submission

Matter name	Graco Australia RPM Notification
ACCC parties	David Hatfield, Jaime Martin, Gemma Smith
TRACKIT No	RN10000461
Other parties	Phillro Industries: Mark Heaven, Managing Director
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Phone to <input type="checkbox"/> Phone from <input type="checkbox"/> Meeting <input type="checkbox"/> Other <input checked="" type="checkbox"/>	

The ACCC team visited the retail site of Phillro Industries (**Phillro**) in Moorabbin, Melbourne. During the site visit, Phillro Industries provided the following information:

Background

Phillro has been a Graco distributor for 35 years. It is a specialised equipment store and does not sell paint. Phillro mainly sells Graco’s contractor range of paint sprayers.

Phillro was previously a wholesale distributor for Graco Australia until about 2 years ago when Graco Australia decided to cancel that arrangement. As a result, Phillro had to quickly change its business model, including selling direct to end-users online. It also became a Wagner distributor. Phillro now focusses a significant portion of its business in supplying industrial grade Graco equipment [REDACTED].

Paint sprayer market

Phillro used to be Graco Australia’s biggest distributor for 6 – 7 years. Phillro considers that Paint Access, GO Industrial and the national network of Dulux stores are the other large distributors of Graco paint sprayers. Phillro considers its main competition comes from the paint stores (such as Dulux), and the current online discounting of paint sprayers in the market is driven by the discounting practices of paint stores.

While Phillro considers that Graco Australia is the lead innovator in spray equipment (around 4% of its annual revenue is put back into research and development), spray painting equipment is all very similar, regardless of whether you use a Graco or Wagner.

In Australia, Phillro considers there really is only Graco or Wagner. Graco dominates the contractor sector, and Wagner dominates the 'DIY space'. They both have similar products but different business models.

Phillro noted that since early 2023, Bunnings has started selling Graco paint sprayers in the DIY category only. Phillro is of the view that Bunnings would be in the first phase of their distributor arrangements and is currently only selling a few Graco machines online. Bunnings does not currently have dedicated shelf space for Graco paint sprayers in store. Phillro also thinks Graco Australia would be unlikely to send dedicated sales representatives to third party stores such as Bunnings to train staff about its products because of the significant resources this would involve. Phillro would also not expect Bunnings to be able to provide high levels of service, given its retail model.

Pricing and online sales

Phillro currently offers discounts online. As an 'equipment only' distributor, discounting online in an important way to get contractors through the door. At combined equipment and paint stores, contractors are on the spot regularly to buy paint.

Phillro considers that online distributors have been discounting Graco spray equipment more heavily in the last 2 years or so. However, it considers its retail margins are alright overall.

Phillro considers the bulk of online sales growth has been in the DIY space.

Sales process and services

Phillro advised that paint sprayers are technical equipment and staff require training to be able to provide the correct advice to customers in the initial sale process, and it also operates a service centre for ongoing maintenance and repairs of paint sprayers. A typical sales process involves asking a series of questions (for example, about the type of painting jobs and paint used, as well as the number of jobs and volume of paint used) to ensure that the most suitable sprayer is recommended. With the notified conduct, a higher retail margin on Graco paint sprayers would help cover the cost of training staff.

Phillro has a 'spray room' to test equipment but not a lot of sales are tied to demonstrations. It was a lot more important early on. Occasionally, Graco will bring in a contractor to Phillro's store to test a machine in the spray room.

Phillro considers customer interaction and instruction is just as easy when the sales are online, but it takes place through emails or direct messages instead of in store.

Phillro provides warranty repair services and charges for other repairs services, regardless of where the equipment was purchased. Graco Australia marginally covers the cost of warranty repair work. Phillro has not noticed a significant amount of untrained users bringing their Graco machines in for repair.

Phillro uses Graco Australia's 'online university', which contains volumes of written resources and manuals, to help train its staff. It also advised that, unlike Wagner, Graco Australia does not have a dedicated training centre where staff can attend training sessions. Graco Australia provides onsite training across its network of distributors from time to time via dedicated sales representatives. Graco also provides training directly to end-users through trade mornings and trade breakfasts, often in conjunction with paint stores, and invests in paint sprayer training through TAFE.

Phillro said that these days, there is a significant volume of videos available online (particularly YouTube) from distributors, contractors and Graco Australia – these cover a full range of topics such as set up, maintenance and troubleshooting, and how to use for different applications.


Phillro noted that Dulux has recently started setting up service centres in selected stores.

Impact of the minimum advertised price (MAP) policy

Phillro saw positives and negatives from the notified conduct. Margin is key for profitability, so anything that was likely to increase margin is attractive.

Phillro considers that without the notified conduct, it will be 'business as usual' for it and Phillro is not considering dropping its service levels. Whereas with the conduct, Phillro would lose the ability to attract customers into its stores by advertising discounts and its online business especially would diminish. Lower volumes, even with higher margins, could impact employment decisions and the ability to invest in good staff and training.

With the conduct, Phillro considers that distributors will continue to discount anyway. Phillro provided the example of paint stores being able to send discount codes to their existing contractor customer base to provide a 'discount code' in the shopping cart, which is allowed under the notified conduct.



Phillro considers that contractors are very price sensitive and will continue to seek the best price in-store, which will continue to drive discounting behaviour. However, perhaps the minimum advertised price requirement will result in DIY customers paying higher prices.