



Record of oral submission

Matter name	Graco Australia Pty Ltd – RPM Notification		
ACCC parties	David Hatfield, Jaime Martin, Gemma Smith		
TRACKIT No	RN10000461		
Other parties	Dulux: Peter Smith (Service Centers and Training – Victoria), Grant Sharpe (Merchandising Manager), Neil Veitch (National Buyer – Tools, Equipment & Supplies)		
Site visit	Wednesday, 31 May 2023, 1:30PM		
Online meeting	Tuesday, 6 June 2023, 2:00PM		
Phone to <input type="checkbox"/>	Phone from <input type="checkbox"/>	Meeting <input type="checkbox"/>	Other <input checked="" type="checkbox"/>

The ACCC visited Dulux’s premises in Doncaster, Victoria and requested a subsequent online meeting with Dulux to discuss the likely impact of Graco Australia’s resale price maintenance notification and the sale of paint spraying equipment more generally. The following issues were discussed:

Background

Dulux operates Dulux Trade Centres and Paint Spot stores, and is the franchisor of the Inspirations Paint Stores group.

Dulux has 105 company-owned stores and pretty much all have a spray stand. This was a big investment for Dulux (both in terms of stock and the stands/merchandising) but Dulux is committed to ranging paint sprayers across its stores. 12 of these stores also have service centres which service and hire out spray equipment (as well as a further 8 service centres at Inspirations Paint stores, which are Dulux Trade Agencies).

Paint Sprayers are an important product to Dulux but the market in Australia is not as mature as it is in the United States. Dulux wants to drive conversion to spray because it offers a better film build and finish and because paint sprayers enable paint sales – the more paint sprayers sold, the more paint and ancillary products are sold too.

Dulux's commitment to spray equipment is fairly significant. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Dulux currently stocks a core range of both Wagner and Graco across all of its stores. Dulux also had one private label, DIY/occasional-use product [REDACTED]. This was not targeting the trade painter, it was more for DIY/occasional use or grey trade like a maintenance worker that sprays the occasional wall.

Dulux is experiencing diminishing returns on sales of paint sprayers, but is still committed to the market. Dulux first decided to commit 10 years ago and opened its first spray centre 4 years ago.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Paint sprayer market

In Australia, the market for paint sprayers is immature but has high growth potential. Paint sprayers are at very low penetration levels in the industry compared to in the US (around 75%). In Australia, maybe there is 25-30% penetration and that's concentrated in new residential and commercial buildings (where the surface to be painted is essentially a blank canvas).

In Australia, there are only really two established brands in this market – Wagner and Graco. There are some fringe ones [REDACTED] and direct imports or private label machines.

Graco and Wagner are the two most credible/ recognised brands so what it comes down to is distribution. The majority of stores that have paint sprayers stock one or both of those two brands. [REDACTED]
[REDACTED]

Graco is the market leader by a comfortable margin in the contractor segment while Wagner is more focused on the DIY segment through Bunnings.

In the market for paint sprayers, Dulux competes with a lot of small, independent stores that stock and service paint sprayers as well as predominantly online distributors who also have a bricks and mortar premises, and smaller distributors who mostly focus on other categories but cater to a wide range of equipment in the industrial and decorative markets. These are spray technical specialists, rather than paint companies.

We believe that Dulux offers more comprehensive spray solutions than its key paint manufacturer competitors do in their sales outlets.

Marketing and customer support

Dulux is investing heavily in this area and in training its staff on sprayers. [REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
Dulux runs expos and events to show off spray equipment. [REDACTED]
[REDACTED]
[REDACTED]

For end-users, there are a lot of videos on YouTube about using the machine but there is none on how to help the end-user, whether a DIY or trade painter, select the right machine.

As far as operation goes – spray machines are very similar: they all operate in the same way, no matter which brand. That being said, if someone has only used Wagner spray machines, Dulux staff will show them how to operate a Graco machine, and vice versa. But you wouldn't need to go through tip selection, for instance, and could skip right to the mechanical details instead. There may be some differences in how to clean the machines, so Dulux staff would show them that.

- ***Adoption of spray equipment***

Generally, there have been 3 barriers to spray equipment adoption:

- The prep work is more time consuming: For spray you need to pre-mask and fill whereas with a brush and roller all you need to do is put down some drop sheets and maybe do a bit of masking.
- Fear and uncertainty: Painters don't know where to learn how to use a sprayer and are afraid of making mistakes with it – the training hasn't really been established yet in the market.
- Overspray issues, though that is not so much an issue anymore now with low pressure tips.

The American paint sprayer market is different to Australia. In the US they use low-paid labour to do a lot of the prep work so painters can just come in and spray. Here, when spray equipment was just entering the market the overspray and other drawbacks discouraged the market. There is also an older generation of painter here that has always used rollers and always will. As the newer apprentices come in, the uptake in Australia will increase.

Dulux is trying to reduce those barriers by running its 'spray days' and putting the spray equipment in people's hands. Once people have tried one, they say they didn't realise it was so easy and they realise the savings they could make in their painting. This also reduces that fear of the unknown.

Dulux is also looking at offering training to painters to support uptake and increase confidence in spray equipment across the market. There is a lot of demand from painters for proper training [REDACTED]
[REDACTED]

At the moment, Dulux runs in-house, informal painting training to give painters more confidence with paint sprayers. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

- **Pre- and post-sales service**

Dulux staff normally spend 1-1.5 hours with a customer purchasing a paint sprayer. Dulux is offering a service rather than just a product. Paint sprayers are not easy equipment to use.

Before the sale, staff will go through what the customer wants to spray (material and coating), volume (how many houses or fences a week/month), intended hours of use, primary use. This could be a 20-minute conversation. Then they'll go through tips for the intended coating and discuss price.

After a sale, then you go through safety, how to build the pressure, how to prepare the machine and shut it down. This may also cover maintenance.

Spraying paint at 3000 PSI can result in severe injuries if used incorrectly and Dulux sell units up to 3300 PSI.

Customers will come to a Dulux store and ask for training on equipment for a machine they have bought online from another distributor.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- **Paint sprayer hire**

[REDACTED]

The process before letting someone hire a machine can be quite time consuming as it covers safety, plugging it in, how to spray, how to clean the machine up, and how to return it. Generally, this may take 45 minutes to 1 hour. [REDACTED]

[REDACTED]

Discounting

Discounting has begun in the last couple of years. Now, the online market sets a price. No matter how great Dulux's expertise is, the floor price online is the price. People walk in with a price showing on their phone. The aggressive discounting by online players means they pick up a disproportionate share. In a more rational marketplace, items would sometimes be on sale, sometimes not. But here it's discounted prices every day.

It is necessary to be price competitive in this market. [REDACTED]. However, stores like Phillro Industries offer paint sprayers for 20-25% off every day. Then other stores follow suit. The market is very competitive on price. Pretty much all distributors are now heavily discounting Graco. The everyday online prices are very low. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED] The category margins on paint sprayers are low to start with, then typically online sales offer 25% which further eats into the margins.

Some products are advertised at a 25% discount before they're even launched. There are businesses that used to have paint sprayers as their core business but not anymore – now most specialise in industrial equipment. Even for the last couple of major product launches, they were discounted online before the product was even available in the country. [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

A lot of the small players in the market are using aggressive pricing to get customers in the door. It is difficult to see that being sustainable.

Wagner is discounted online but not to the same extent as Graco. The prices on Wagner are not as aggressively discounted and low every day.

The paint sprayer market is still immature in Australia. In other tools markets, heavy discounting led to rationalisation of retailers and eventually it all stabilised with retailers selling at consistent, but low margins. No-one aggressively discounts in those other tools markets anymore because everybody loses. Dulux expects this industry is likely to end up much the same over time.

- ***Impact of discounting behaviour***

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Most customers have already made up their mind on the brand decision before walking in the door. There is very much a Holden and Ford kind of preference in the market – it usually just depends on what they have used before or what their mates have.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Dulux doesn't currently sell sprayers online [REDACTED]

It's not clear how many customers just aren't coming in to stores at all because of the online prices.

Dulux [REDACTED] doesn't experience the same level of discounting on Wagner products.

MAP Policy

If the MAP policy goes ahead, the floor price will be higher with the contact and service considerations and then through negotiation with the customer, staff will arrive at a final price.

The MAP policy might make discounting less visible and help stabilise floor prices. However, Dulux considers the Notified Conduct won't prevent stores from emailing customers or advertising with the promise of great deals if they sign up for a trade account.