

TRADEME/MOTORCENTRAL MERGER: COMPETITION CONCERNS

Concerns with the proposed merger

- 1 If the merger goes through, our concern is that TradeMe could throttle competitor vehicle classified listing businesses by withdrawing or restricting access to Motorcentral listings. TradeMe/Motorcentral could do this by:
 - As a matter of technology, simply turning the feeds of listings off.
 - And as a matter of commerce, through differential pricing where, say, the merged entity charged dealers one price for TradeMe services and another (higher) price for listing on multiple platforms. While dealers might not like that pricing model, at some price point they will see limited value in listing beyond TradeMe and that reality will extinguish competitive listings businesses that are still in growth mode.
 - Adopting differential pricing such as increasing the price to other classified listings businesses for a feed of Motorcentral listings so that the other's business model is no longer a viable proposition.
- 2 In sharing these concerns with you we note that TradeMe's clearance application says that, post-merger, TradeMe would have "no incentive to foreclose". We do not think that's right. TradeMe's business model depends on winning as many listings as possible. So why wouldn't TradeMe use Motorcentral to steer dealers to its platform? We expect that prospect is a key rationale for the merger, along with insulating TradeMe against looming rivalry from global social media platforms.
- 3 We also note that TradeMe asserts in its clearance application that if it would not be able to "remove or degrade the ability of Motorcentral to automatically upload or integrate with other online vehicle advertising portals" because:
 - Motorcentral would lose DMS customers and revenue to alternative DMS providers; and
 - There would be "no revenue upside for TradeMe if it tried to force dealers to upload to TradeMe Motors" as dealers would "very quickly find ways of directing their expenditure to the advertising channels of their choice".
- 4 We think that submission misstates both Motorcentral's market position and the technology involved.
- 5 Motorcentral is really a listings aggregator. We understand it controls around 500 dealers generating about 26,000 real time listings. Motorcentral focusses on SME used vehicle dealers.
- 6 We do not believe any incumbent or new entrant could readily challenge Motorcentral's grip on its huge SME dealer base.
- 7 We understand scale is important to DMS product firms. We would expect a challenger firm to find it very difficult to win scale off Motorcentral. That is because Motorcentral manages dealer inventories through a range of products which, in reality, make its customers very sticky once they're on-board, because:

- the product bundle includes easy access to financial services which other DMS product sellers would find hard if not impossible to match;
- changing DMS providers may require manual data re-entry onto the new platform and other setup hurdles; and
- absent an automated feed to external sites, a Motorcentral dealer each day or each week would need to manually “copy and paste” their inventory listings—for example into an Excel sheet—to place them on a non-TradeMe advertiser.

8 In the result, we do not believe SME dealers would or could readily move their business away from Motorcentral if it began favouring TradeMe over other platforms. We say that because we would not expect SME dealers to see the attraction of dealing with multiple platforms as justifying either:

- greater cost;
- the time and hassle of manual uploading; or
- the downside of dropping Motorcentral with its extensive product suite in exchange for an untested business partner offering an inevitably less valuable bundle.

9 We also note that, if the deal proceeds, we expect Motorcentral would offer seamless access to the TradeMe platform. Whether dealers like it or not, they would have to be on TradeMe. If it wished, TradeMe could make it more difficult for Motorcentral’s DMS product rivals to access place ads on its platform. That too would make it even harder for incumbent or new entrant DMS product firms to win market share off Motorcentral after the merger.

Autoplay

10 As we see it, Motorcentral’s only meaningful potential DMS rival is a business called Autoplay.

11 However, Autoplay’s automotive arm is focussed on large motor-vehicle franchisees typically selling higher-end cars than Motorcentral’s SME and used vehicle dealers.

12 Between them, Motorcentral and Autoplay effectively control all the dealer listings and do not appear to compete head-on; instead they target different ends of the market. For that reason, we do not see Autoplay placing any material constraint on Motorcentral should it begin favouring TradeMe over alternative platforms.

13 In summary, we cannot see any reason why TradeMe wouldn’t use Motorcentral to:

- increase its listing revenue; and
- prevent rival businesses from competing with it for market share in the listings space.

TradeMe’s past form

14 Lastly we note that TradeMe’s past conduct exacerbates our concern. In 2012, we understand TradeMe acquired 100% of a business called Autobase which, until then, it had held a minority stake in. Autobase – which still operates – allows dealers to log in and manage their own advertisements. As an independent business, Autobase used to

send those advertisements to other advertising platforms like Autotrader and AA Carfair. But sometime after TradeMe invested in Autobase (but prior to their acquisition of 100% in 2012) we understand TradeMe simply cut Autobase's feed to Autotrader and AA Carfair. Today Autobase claims to have 67,195 vehicle listings which it shows at autobase.co.nz and we understand on TradeMe Motors but nowhere else.

- 15 We believe Trade Me's investment in and eventual total control of Autobase as a key listings aggregator has been a key factor in Trade Me's current dominant position in the digital listings market. Other vehicle listings platforms have struggled to scale without access to the listings that were aggregated in Autobase.
- 16 In relation to Autobase, we understand that dealers who hold their data through Autobase (owned by Trade Me) are being told that a \$50 per month fee will apply if they want to export their data from Autobase to any other platform (ie. Autoplay). Dealers are consequently left with the option of paying up or loading data manually in order to also use a rival DMS. We understand dealers are declining trials with rival platforms and simply sticking with Autobase/Trade Me because of the cost.