PUBLIC VERSION

Response to THL's submission of 20 July 2022 on the wholesaler/aggregator channels

Our client wishes to make the following high-level points in response to the THL submission of 20 July 2022 regarding wholesaler / aggregator channels to market.

1. Our client considers the wholesale / aggregator channel is an important part of the current competitive landscape. Our client considers that this channel has provided some competitive constraint on THL and Apollo to date, despite the significant market shares they currently hold. However, our client's view is that the channel will be materially weakened if the proposed merger goes ahead, preventing it from continuing to offer the current level of constraint (let alone any countervailing power).

2. The channel encourages price comparison between rental operators and provides smaller suppliers with a platform or "shop window" with which to compete against THL and Apollo. This is important, given the huge advantages THL and Apollo have in the search engine optimization (i.e. appearing in native search engine results for motorhome related keywords) and paid search (i.e. bidding for advertising against motorhome related keywords) arenas. Both key means of any operator acquiring customers. While rental operators give up commission to wholesale partners or aggregators on each booking, they avoid the need to spend years and millions of dollars attempting to compete with THL or Apollo for direct bookings in this heavily competitive space. This makes the channel important for new operators entering the market or (as THL notes at paragraph 4.5) looking to grow.

3. When combined, all of THL's wholesale partners and aggregators may make up a material portion of its overall revenue. But THL admits at paragraph 2.8 that each of those partners aggressively compete with each other: "**thl's** distribution partners are constantly trying to undercut each other on price". The combination of vigorous competition between a range of wholesale partners on one hand, and the merged entity's control of the majority of New Zealand motorhome inventory (even after the proposed divestment) will inevitably increase the merged entity's bargaining power.

4. THL claims that it would be "contrary to commercial common sense" for the merged entity to act in a manner that would put wholesale / aggregator partners offside (paragraph 6.1(a)). Yet its own submission contains an explanation of the commercial rationale it will have for doing this:
    a. In paragraph 2.8, THL explains that wholesale partners "often offer customers discount pricing relative to thl's direct channels. Partners with superior commercial terms or lower overheads can price more aggressively";
    b. In paragraph 4.5, THL admits that its brands may not appear as prominently on online aggregator sites, with "price acting as the key differentiator";
    c. In paragraph 2.8, THL admits that, "although distribution partners are customers in one sense, they are also competitors in another, with very different motivations and agendas as a result";
    d. In paragraph 2.5 THL appears to suggest (via some redacted percentages) that bookings via this channel make up a material portion of its revenue. An issue that THL appears to consider a "risk" to its business in paragraph 6.8(b) where THL admits that any increase in the proportion of the bookings made via the wholesale/aggregator channel "would increase the merged entity's risk";
    e. At paragraph 4.5 THL admits that the wholesale/aggregator channel, "is the highest cost of sale channel";
    f. Also in paragraph 4.5 THL admits that selling bookings direct to consumer enables rental operators to avoid "the constraints imposed by wholesalers and aggregators".

5. While wholesale partners are an important marketing channel for rental operators in a competitive market (to efficiently and cost effectively maximise an operator's marketing coverage and exposure where consumers are looking), it makes perfect commercial sense to our client that THL would seek to reduce the bookings made via wholesale partners and increase bookings via its direct channels in circumstances where it has market power. Direct bookings are higher margin and less subject to price competition or comparison to competitors. A market structure in which the merged entity will control the majority of New

Zealand motorhome inventory (even after the proposed divestment) may provide the merged entity with the perfect opportunity to implement this strategy. Over time as the industry refleets, there will become such a small pool of New Zealand motorhome inventory not controlled by THL that wholesalers / aggregators will have few other options and no ability to “punish” the merged entity as claimed by THL (paragraph 6.8(c)). Once the inventory of smaller suppliers has been fully booked, it is no longer possible for a wholesale partner to promote or favour those suppliers over the merged entity.

6. In paragraphs 2.3 and 2.4, THL summarises the size and financial standing of some wholesale partners *outside the relevant market*. It cites their other (i.e. non-motorhome) tourism businesses and the valuation or staffing levels relating to those other businesses and then argues in paragraph 5.2 that because motorhome rentals are not a large part of those overall businesses, none of them are reliant on an RV operator to stay in business.

7. The fact that Flight Centre, FTI Group, Trailfinders and the Webjet Group have other large businesses unrelated to motorhomes does not give them any commercial leverage or bargaining power over the merged entity *within the motorhome rental market*. Indeed, this actually makes it more likely that these partners will decide to exit the market altogether if the merger goes ahead. This may occur if the merged entity imposes commissions or reduces inventory to this channel below competitive levels, which (because of the absence of alternative inventory) would have such a significant financial impact that many may well decide it is no longer economic continuing with the motorhome business.

8. [ ]

9. If wholesalers / aggregators choose to leave the motorhome market, the channel will no longer be available to the remaining smaller operators still left competing with the merged entity. Our client does not consider it is credible to say that because wholesalers / aggregators may still sell in other international markets where THL does not control the majority of inventory (e.g. the US or EU) they will continue to offer bookings in New Zealand in anywhere near the volume they do currently. Without investing in actively marketing or promoting New Zealand listings or on-boarding New Zealand suppliers, there is little point in international wholesalers / aggregators maintaining booking functionality for the New Zealand market. If this happens at all, it would likely only be at very low volumes and only in the short term. THL’s submission assumes that wholesale channel partners do not invest heavily in localised marketing and customer acquisition in each market where they operate, which can easily be demonstrated to be untrue. If it becomes no longer viable for wholesalers / aggregators to invest in customer acquisition for New Zealand and Australian motorhome rentals, it is more likely they will choose to exit those markets. Wholesalers / aggregators who currently actively work with a range of suppliers and invest heavily in customer acquisition in Australia and New Zealand may exit motorhomes as a segment altogether.

10. On the other hand, some wholesale partners leaving the market would likely be welcomed by the merged entity. While it might initially lose some current revenue from these partners (including losing the additional marketing breadth these wholesale partners provide), this would be balanced by (i) a significant increase in volume of higher margin direct bookings; (ii) higher prices due to reduced price competition; and (iii) lower customer acquisition costs re direct bookings, and (iv) the lack of need for additional marketing breadth through wholesale partners, when the vast majority of inventory can be offered on THL's own direct platform (thereby undermining the need to work with wholesale partners). While THL may find it harder to replace bookings lost from traditional in person travel agents, it may well take the view that this type of wholesaler is declining in importance over time in any event. For example, as THL has already noted in its submission on the Statement of Unresolved Issues (paragraph 5.14), “There is also evidence which suggests that wholesalers and travel agents account for only a small proportion of the market”.

11. [ ] Even with the proposed divestment the merged entity will be responsible for [ ]. After the merged entity has completed its published re-fleeting plans (unless Jucy invests as heavily as the merged entity in additional fleet on top of acquiring the proposed divestment), [ ] as

international travel returns. It is not plausible to argue that a profitable wholesaler or aggregation site could be operated using supply from [ ] of the market.

12. Our client does not agree that the proposed divestment replaces Apollo with an equivalent competitor that resolves the above issues. The divestment is a one-time disposal of inventory. It does not include any Apollo manufacturing facilities or supply contracts guaranteeing supply of future inventory from the merged entity. It includes only the merged entity's weakest brand within minimal SEO value, responsible for a tiny fraction of its overall bookings.

13. Critically though, the divestment comes at a time of historically low inventory levels, when all operators will shortly begin acquiring significant amounts of new inventory as international travel returns (e.g. THL's published intention is to acquire 5000-6000 vehicles globally in 2024). Rather than acknowledge this, our client's view is that THL continues to describe the proposed divestment using misleading percentages which overstate the size and scale of the proposed divestment. Contrary to THL's assertions in paragraph 7.2(a) and 7.3, the divestment ***is not*** for 70% of Apollo's motorhome fleet. It relates only to 70% of Apollo's ***4-6 berth motorhome fleet in 2022***. Because fleet levels are currently so low and given THL's fleet acquisition plans, the relevant denominator the Commission must use to assess the percentage size of the divestment is 2019 inventory across all motorhomes. That is, where inventory levels will likely end up in 2 to 3 years' time. [ ].