

14 August 2017

## **Bauer Media Group – submission on Trade Me’s proposed acquisition of Motorcentral**

### **1. Introduction and Summary**

- 1.1 We refer to the Commission’s Statement of Preliminary Issues in relation to Trade Me’s proposed acquisition of Motorcentral (the **Acquisition**).
- 1.2 Bauer Media Group (**Bauer**) considers that the Acquisition will result in Trade Me foreclosing Bauer’s Autotrader platform from accessing Motorcentral’s dealer listings feed **[Redacted]**.
- 1.3 Autotrader is the primary online automotive classified advertising competitor to Trade Me. **[Redacted]**.
- 1.4 **[Redacted]**. As set out in Trade Me’s clearance application (and based on the Commission’s guidelines), "input foreclosure" concerns arise where:
  - (a) a firm has market power at an upstream level of the supply chain; and
  - (b) a firm has the ability to foreclose competitors from accessing services at that level of the supply chain by virtue of its market power; and
  - (c) a firm has the incentive to foreclose competitors from accessing services at that level of the supply chain – ie that an increase in profits in a downstream market will exceed a loss in profits in that upstream market.
- 1.5 **[Redacted]**.
- 1.6 **[Redacted]** It also draws on the ACCC’s decision in *Carsales.com Limited - proposed acquisition of assets associated with Trading Post from Telstra Corporation Limited*<sup>1</sup> which covers many of these same issues and provides helpful guidance as to how these markets should be assessed.
- 1.7 This submission concentrates on the impact of the Acquisition on the online vehicle classified market. The Acquisition may well affect competition in other markets (as set out by the Commission in its Statement of Preliminary Issues), but these are not the focus of the evidence provided by Bauer in this submission.

### **2. Confidentiality**

- 2.1 We understand that the Commission intends to publish submissions received in response to the SOPI on its website. **[Redacted]**.
- 2.2 **[Redacted]**.
- 2.3 Bauer requests that the Commission notify it of any requests are made for access to the submission or **[Redacted]**.

### **3. ACCC’s decision in *Carsales***

- 3.1 The ACCC’s decision in *Carsales* is instructive in this case. While *Carsales* also involved horizontal competition issues in the online vehicle classified advertising market, the vertical

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<http://registers.accc.gov.au/content/item.phtml?itemId=1117620&nodeId=b6ca5277d231313d2750fba9a5e401e7&fn=Carsales.com%20Limited%20proposed%20acquisition%20of%20assets%20associated%20with%20Trading%20Post%20from%20Telstra%20Corporation%20Limited%20-%20Advertising%20-%202013%20June%202013.pdf>

foreclosure issues also formed a strong basis for the ACCC's finding that the acquisition would be likely to substantially lessen competition. The upstream "inventory distribution and data standardisation" services were specifically referred to, as was the importance of inventory and the ability to use control over inventory to raise rivals' costs. The key paragraphs of the ACCC's public competition assessment relating to vertical effects are set out below.

*Carsales' vertical integration further limits the competitive constraint from others*

115. The advantages that Carsales gains from its vertical integration into the provision of complementary services to car dealers was an important element in this assessment, and the ACCC considered that the proposed acquisition would further strengthen these advantages.

116. As described earlier, in addition to advertising, Carsales offers a range of services to car dealers including:

- upstream services such as inventory distribution and data standardisation; and
- downstream services such as lead management.

117. Many dealers utilise one or more of the ancillary services provided by Carsales. Carsales' provision of these related services increases the costs for dealers of shifting their advertising away from Carsales and means that other providers of online automotive classified are required to negotiate with Carsales for various inputs into their business.

118. The ACCC considered that by increasing the share of dealer inventory channelled through the Carsales 'supply chain', Carsales would be likely to increase its ability and incentive to engage in strategies that would raise the costs of its rivals for online automotive classified advertising. The ACCC also considered that this factor would reinforce the entry barriers for online automotive classified advertising generated by Carsales' vertical integration. The ACCC considered that these concerns supported the horizontal competition concerns outlined above.

3.2 There is nothing about the Acquisition that should cause the Commission to depart from the ACCC's reasoning in *Carsales*. **[Redacted]**.

4. **Autotrader is a key constraint on Trade Me Motors.**

*Market definition*

4.1 Trade Me has argued for a very wide market definition, being "the national market for the supply of motor vehicle advertising to motor vehicle dealers". Trade Me states that this market is highly competitive and that Facebook and Google are seen as viable alternative advertising channels by motor vehicle dealers. Accordingly it claims that Trade Me Motors has no market power in the provision of motor vehicle advertising.

4.2 Bauer considers that this market definition is wholly unrealistic. Rather, Trade Me Motors competes head to head with Autotrader and, to a much lesser extent a small number of additional platforms (many of which are powered by services that they are provided by Autotrader).

4.3 **[Redacted]**. Trade Me Motors and Autotrader are "buying tools" to match automotive purchasers with dealers. While Facebook has branched out into classified listings, this is not available for dealers.

4.4 Accordingly, consistent with the ACCC's decision in *Carsales*, we consider that the relevant downstream market (in which the competitive harm will be felt) is the national market for the provision of online automotive classified advertising services to dealers (which we will refer to as the **online vehicle classified market**).

4.5 We set out further evidence below of the closeness of competition, by reference to the tools that consumers use when searching for cars.

### *How consumers buy cars*

#### 4.6 **[Redacted]**.

##### *The role of a DMS*

4.7 A DMS is a critical intermediary between motor vehicle dealers and online vehicle classified platforms. The process works as follows:

- (a) Motor vehicle dealers obtain new vehicle stock;
- (b) they enter this into their DMS system, including key details on the vehicle, photos etc;
- (c) the DMS provides some or all of the following services (generally for a fee which varies with the size of the dealer and the services acquired):
  - (i) uploads the data to the online vehicle classified platforms specified by the dealer either directly or via an aggregator (see below);
  - (ii) uploads the data to the dealer's website (and is generally responsible for running the dealer's website);
  - (iii) updates the dealer's stock management system (and is generally responsible for operating the dealer's stock management system);
  - (iv) updates the dealer's accounting system (MYOB or Xero) and manages invoicing;
  - (v) provides graphics to enhance motor vehicle listings and advertising;
  - (vi) manages finance and insurance;
  - (vii) manages trade-ins.
- (d) where an aggregator is used (such as Autotrader's use of DMi), the aggregator takes the feeds from the DMS systems and feeds these into the online vehicle classified platform;
- (e) the platform then charges dealers in different ways depending on the model (Auto trader charges for leads as tracked by emails and phone calls to the dealer originating from the platform);
- (f) the DMS then provides various reports and statistics back to the dealer, including to assist the dealer to track leads gained through a platform and a dealer's return on advertising expenditure.

#### 4.8 **[Redacted]**.

4.9 **[Redacted]**. It would be unusual for a dealer to use more than one DMS. This is because:

- (a) **cost:** most DMSs charge for their services and there is nothing to be gained by a dealer duplicating DMS services; and
- (b) **time:** uploading data on vehicle stock is a time-consuming task for dealers. Dealers would have no desire to replicate this for two different DMSs (in addition to the extra relationship management that would come from dealing with an additional supplier). Dealers would rather focus their time on buying and selling cars.

#### 4.10 **[Redacted]**.

5. **Trade Me has the ability to foreclose access to Motorcentral's dealer listings feed**

5.1 [Redacted].

6. **Trade Me has the incentive to foreclose access to Motorcentral's dealer listings feed**

6.1 [Redacted].

6.2 [Redacted]. Like other online marketplaces, online vehicle classified platforms operate in two-sided markets with strong network effects. [Redacted].

6.3 The ACCC recognised the importance of network effects in the online vehicle classified market (see in particular paragraphs 43, 92, 104, 112, 114 and 115-118 which are set out above).

6.4 [Redacted].

*Trade Me has history of foreclosing access to dealer listings feeds to rival platforms*

6.5 In 2012 Trade Me acquired the remaining 74.6% of shares in Autobase that it did not already own. Autobase operated a DMS, which previously sent dealer listings feeds to DMi for uploading to the Autotrader site. Subsequently, Trade Me ceased offering a dealer listings feed to Autotrader, resulting in a reduction in the number of dealers listing on the Autotrader site.

6.6 [Redacted].

7. **Conclusion**

7.1 [Redacted].