



Public Competition Assessment

13 June 2013

Carsales.com Limited - proposed acquisition of assets associated with Trading Post from Telstra Corporation Limited

Introduction

1. On 20 December 2012, the Australian Competition and Consumer Commission (**ACCC**) announced its decision to oppose Carsales.com Limited's (**Carsales**) proposed acquisition of assets associated with the Trading Post business (**Trading Post**) from Telstra Corporation Limited (**Telstra**) (the **proposed acquisition**). The ACCC decided that the proposed acquisition would have or be likely to have the effect of substantially lessening competition in the markets for the supply of online automotive classified advertising to dealers and to private advertisers in Australia in contravention of section 50 of the *Competition and Consumer Act 2010* (**the Act**).
2. The ACCC made its decision on the basis of the information provided by the parties to the acquisition (the **parties**) and information arising from its market inquiries. This Public Competition Assessment outlines (subject to confidentiality considerations) the basis on which the ACCC has reached its decision on the proposed acquisition.

Public Competition Assessment

3. To provide an enhanced level of transparency in its decision making process, the ACCC issues a Public Competition Assessment for all proposals where:
 - an acquisition is opposed;
 - an acquisition is subject to enforceable undertakings;
 - the parties to the acquisition seek such disclosure; or
 - an acquisition is not opposed but raises important issues that the ACCC considers should be made public.
4. This Public Competition Assessment has been issued because the proposed acquisition was opposed by the ACCC.
5. By issuing Public Competition Assessments, the ACCC aims to provide the public with a better understanding of the ACCC's analysis of various markets and the associated merger and competition issues. It also alerts the public to circumstances where the

ACCC's assessment of the competition conditions in particular markets is changing, or likely to change.

6. Each Public Competition Assessment is specific to the particular transaction under review by the ACCC. While some transaction proposals may involve the same or related markets, it should not be assumed that the analysis and decision outlined in one Public Competition Assessment will be conclusive of the ACCC's view in respect of other transaction proposals, as each matter will be considered on a case-by-case basis.
7. Public Competition Assessments outline the ACCC's principal reasons for forming views on a proposed acquisition at the time the decision was made. As such Public Competition Assessments may not definitively identify and explain all issues that the ACCC considers arise from a proposed acquisition. Further, the ACCC's decisions generally involve consideration of both non-confidential and confidential information provided by the parties and market participants. In order to maintain the confidentiality of particular information, Public Competition Assessments do not contain any confidential information or its sources.

The parties

The acquirer: Carsales

8. Carsales is a public company listed on the Australian Securities Exchange.
9. Carsales is the largest online automotive classifieds business in Australia, through its carsales.com.au and carpoint.com.au sites, other automotive-related sites and other category specific sites such as motorbikes, trucks and marine classifieds sites (see Table 1 below).
10. Carsales also operates quicksales.com.au (**Quicksales**), which it launched in 2003. It provides general classified advertising for a wide range of product categories, including automotive, motorcycles, boats, trucks, farm, machinery and many others.

Table 1: Online advertising sites operated by Carsales

Category	Website
Automotive	carsales.com.au
	carpoint.com.au
	discountnewcars.com.au
	discountusedcars.com.au
	prestigenewcars.com.au
	greencarsales.com.au
	motoring.com.au
Marine	boatsales.com.au
	boatpoint.com.au

Motorbikes	bikesales.com.au
	bikepoint.com.au
Trucks	trucksales.com.au
Machinery	farmmachinerysales.com.au
	constructionsales.com.au
	plantmachinerysales.com.au
Real estate	homesales.com.au
Caravans	caravancampingsales.com.au
Multiple categories (general classifieds)	quicksales.com.au

11. Carsales also sells display or banner advertising space to third parties, including car manufacturers, car insurers and car financiers. Display or banner advertisements (as distinct from classified advertising) are special advertisements (sometimes interactive) appearing in boxes or other shapes on a web page to promote a product or service of a third party (e.g. advertisement by an insurer for car insurance).
12. In relation to automotive classified advertising, Carsales attracts advertisements from two key groups, being automotive dealers and private automobile advertisers. Carsales uses different pricing mechanisms for these two groups.
13. Carsales charges most of its dealers a base subscription fee to advertise and a 'pay per lead' fee (charged when a customer makes an online inquiry regarding a vehicle listed by that dealer). Under this model, dealers are not able to display their contact details on the Carsales site for use by potential buyers. Each lead from a potential buyer is passed by Carsales to the dealer with the buyer's contact details.
14. Private advertisers using the carsales.com.au website are charged an upfront fee to list their car. At the time of the ACCC's review, Carsales was charging private advertisers \$60 for a basic package or \$110 for a premium package. Unlike dealers, private advertisers do not have to pay for leads and are able to provide contact details for potential buyers to contact them.
15. In addition to online advertising, Carsales is vertically integrated and provides a range of services to dealers including inventory distribution and lead management services through its DataMotive (**Datamotive**) division. Carsales also provides automotive specification and valuation information services through its ownership of redbook.com.au.
16. For the financial year ending 30 June 2012, Carsales' operating revenue totalled \$184.2 million from four sources:
 - the sale of classified advertisements to dealers (45%);
 - the sale of display or banner advertising (24%);
 - the sale of classified advertisements to private advertisers (18%); and

- the provision of data and information technology services to dealers (13%).¹

17. Carsales does not provide print classifieds.

The target: Trading Post

18. Trading Post is owned by Telstra Corporation (Telstra) and provides online classified advertising on its website, tradingpost.com.au. This website covers a wide range of advertising categories, including cars, motorbikes, caravans, trailers, boats, wheels and parts, backyard, pets, sport and fun, farm, home and DIY.
19. The Trading Post business was established in 1966 as a weekly print classifieds publication and subsequently developed as a strong and well known brand in Australia.
20. Telstra acquired Trading Post in 2004. The print version of the Trading Post ceased production in 2009.
21. Trading Post's pricing mechanism for automotive dealers involves a subscription model that allows a specified number of car listings for a fixed monthly fee. Dealers using Trading Post are able to display their contact details and other relevant information to potential customers.
22. For private advertisers, at the time of the ACCC's review Trading Post was charging an upfront fee for car listings, offering basic advertisements (\$50) or premium advertisements (\$70). For listings in certain other categories, including motorbikes, boats, go karts and machinery, Trading Post was charging a basic cost of \$40. The basic cost to list trailers, wheels and car parts, household items or products in other categories was \$20. Items priced under \$500 were able to be advertised free of charge, subject to certain conditions.
23. Telstra also operates the Car Showroom website (carshowroom.com.au), which provides car reviews and other automotive-related content, including cars for sale. Links are embedded within car advertisements that re-direct potential car buyers to the Trading Post website.²

Other industry participants

Carsguide

24. Carsguide operates an automotive advertising website (carsguide.com.au) which is one of the main competitors to Carsales, providing automotive advertisements from dealers and private sellers.
25. Carsguide.com.au is a joint venture between Carsguide, News Limited (**News**) and a syndicate of 35 Australian automotive dealer groups, including Automotive Holdings Group Limited, A.P. Eagers and the Trivett Group.
26. In addition to advertisements placed directly on the Carsguide website, News uploads car advertisements from its relevant newspaper classifieds and places them online on carsguide.com.au.

¹ Carsales, FY12 Results Presentation, 14 August 2012, viewed 27 May 2013,

http://media.corporate-ir.net/media_files/IROL/23/230809/FY2012_Results_Presentation.pdf.

² Car Showroom was not included as part of the proposed acquisition and therefore was considered by the ACCC in this review.

Drive

27. Fairfax Media Ltd (**Fairfax**) owns and operates the website drive.com.au. This website is another competitor to Carsales. It provides online automotive classified advertising listings for new and used vehicles, car reviews and editorial-related content using the 'Drive' brand.
28. Fairfax also provides print classifieds under the Drive brand, including in The Age and The Sydney Morning Herald, and uploads print classifieds onto its Drive website.

eBay and Gumtree

eBay

29. eBay operates an online trading site (in Australia, eBay.com.au) on which people can buy and sell goods across a wide range of product categories.
30. eBay also provides a motoring category, which includes listings for cars (new and used), parts and accessories, motorcycles, collector cars, boats, caravans and other.
31. For sellers, eBay provides the ability to list items in various formats, including a fixed period auction, a fixed price sale ('buy it now') or a 'best offer' format. eBay has grown over time to become a well known and established player in Australia.

Gumtree

32. eBay acquired Gumtree (gumtree.com.au), another well known multiple category advertising site, in 2005.
33. Gumtree offers basic free online classified advertisements. Sellers also have the option to upgrade their free ads to paid advertisements in return for additional listing features.
34. Gumtree's private automotive inventory has grown considerably recently. According to the most recent inventory figures considered by the ACCC as part of its review, it had the highest private seller automotive inventory of any Australian website. Its dealer automotive inventory is far smaller.

CarAdvice

35. CarAdvice.com.au Pty Ltd (**CarAdvice**) operates an automotive editorial website (CarAdvice.com.au) that provides car review information to potential new car buyers. It generates revenue from display advertising.
36. In 2010, CarAdvice acquired the CarBuddy website (carbuddy.com.au) from Jumbuck Entertainment. The CarBuddy site provides classified advertising for used cars.
37. CarAdvice (through CarBuddy) has a smaller share of online automotive classified advertising than any of the four competitors listed above (see market share in Table 2 on page 11 for more detail).

Other players

38. There are a large number of small players in the online automotive classifieds industry. While some of these have been successful in attracting readers and advertisers interested in particular niche or specialty segments of the automotive industry and/or particular geographic areas, none of these players were found to have achieved significant market penetration, nor the ability to impose an effective competitive constraint upon Carsales and Trading Post.

The proposed transaction

39. Under the proposed acquisition, Carsales would acquire the licence to use the Trading Post brand and operate the tradingpost.com.au website for an initial licence period of three years or less. In addition, customer lists and contracts would be transferred to Carsales. Carsales would have the option to acquire the Trading Post brand and related assets at the end of the licence period.
40. The Trading Post and Quicksales sites would have aggregated their inventories. However, Carsales' stated intention was that the Trading Post automotive inventory would not be aggregated to the automotive-specific websites of Carsales, but would rather be carried only on the Trading Post and Quicksales sites.
41. Given the significance of the assets proposed to be acquired as part of the initial transaction, the ACCC's review of the proposed acquisition was conducted as if it were an outright acquisition of the Trading Post business.

Review timeline

42. The following table outlines the timeline of key events in this matter.

Date	Event
30 August 2012	ACCC commenced review under the Merger Review Process Guidelines.
17 September 2012	Closing date for submissions from interested parties.
19 October 2012	ACCC published a Statement of Issues outlining preliminary competition concerns.
2 November 2012	Closing date for submissions relating to Statement of Issues.
2 November 2012	ACCC timeline suspended. Carsales requested more time to respond to Statement of Issues. Former decision date of 29 November 2012 delayed pending receipt of this information.
21 November 2012	ACCC received further information from Carsales. ACCC timeline recommenced.
20 December 2012	ACCC announced it would oppose the proposed acquisition.

Statement of Issues

43. The ACCC published its Statement of Issues on 19 October 2012 identifying a number of competition issues and expressing the preliminary view that the proposed acquisition would likely result in a substantial lessening of competition in relation to online automotive classified advertising because it would:
 - remove Trading Post as one of the closest and most effective competitors of Carsales;
 - reduce choice for advertisers by removing a significant competitor with an offer that was attractive to dealers and private advertisers, differing in important ways from the Carsales' offer;

- raise barriers to existing competitors expanding as a competitive threat to Carsales, including by reducing their access to inventory and audience, and preventing their entry into any inventory or audience sharing arrangement with Trading Post; and
- raise barriers to new entry, through significant increases to Carsales' inventory and audience that would reinforce the network effects³ that it already enjoys, as well as through brand proliferation that may reduce opportunities for new entrants.

44. The Statement of Issues is available on the ACCC's website at the following address: <http://www.accc.gov.au/content/index.phtml/itemId/750995>.

Market inquiries

45. The ACCC conducted market inquiries before and after it published its Statement of Issues, consulting a range of industry participants including automotive dealers, private advertisers, providers of related services to dealers and advertisers, and operators of websites (mainly operators of automotive-related editorial and/or classified advertising websites).
46. In response to the ACCC's initial market inquiries, a large number of industry participants expressed concerns in relation to the effect of the proposed acquisition on competition for online automotive classified advertising. Most concerns were from car dealers and competitors to Carsales and/or the Trading Post. Concerns were also expressed by some private advertisers.
47. In response to the ACCC's post-Statement of Issues market inquiries, the vast majority of market participants who responded, including competitors, car dealers, providers of software, data processing and other services, agreed with the preliminary views expressed by the ACCC in its Statement of Issues and provided further submissions as to the likely competition concerns arising from the proposed acquisition.

With/without test

48. Section 50 of the Act prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment post-acquisition if the acquisition proceeds (the "with" position) to the likely future competitive environment if the acquisition does not proceed (the "without" position) to determine whether the proposed acquisition is likely to substantially lessen competition in any relevant market.
49. Absent the proposed acquisition, Telstra would have the option of:
- continuing to operate the Trading Post;
 - shutting down the Trading Post; or
 - selling or licensing the Trading Post to another party.

³ In economics a network effect (also called network externality) is the effect that one user of a good or service has on the value of that product to other people. When network effects are present, the value of a product or service increases with the number of others using it. The classic example is the telephone. The more people own telephones, the more valuable the telephone is to each owner.

50. Based upon its assessment of the material before it, the ACCC concluded that it was appropriate to assess the likely competition effects of the proposed acquisition on the basis that, without the acquisition, Telstra or another party independent of Carsales would continue to operate the Trading Post in the foreseeable future.
51. The ACCC considered it unlikely that Telstra would close the Trading Post, given that it was a valuable business with a strong brand which was fundamentally attractive to a number of alternative bidders.

Market definition

52. The ACCC considered the proposed acquisition in the context of the following markets:
 - the national market for the supply of online automotive classified advertising to dealer (commercial) advertisers;
 - the national market for the supply of online automotive classified advertising to private advertisers;
 - the national market for the supply of online general classified advertising; and
 - the national market for supply of online automotive display advertising.
53. Markets for online advertising have particular characteristics in that they serve two distinct customer groups – advertisers, and an audience of potential buyers of the product (or service) being advertised.⁴ On one side of the market, advertisers interact with a provider (such as Carsales) to acquire online advertising. On the other side of the market, the audience (e.g. potential car buyers) views online advertisements. To succeed, a site must attract both advertisers and audience.

Online automotive classified advertising – dealer advertiser market and private advertiser market

Product dimension

54. The main area of overlap between Carsales and Trading Post is in the supply of online automotive advertising.
55. The ACCC found that markets for the supply of online automotive classified advertising to be separate and distinct from other types of classified advertising (e.g. online employment advertising or print classifieds).
56. In terms of the two distinct groups of customers for online automotive advertising: car buyers (i.e. the audience) and advertisers using online automotive classifieds, the ACCC's assessment was that neither of these groups of customers was likely to find print classified to be a close substitute for online classifieds.
57. On the supply side of the market (that is, existing and potential providers of online classified advertising websites), the ACCC received information which confirmed that suppliers of other (non-automotive) classifieds could not readily switch into automotive classifieds. Barriers to such switching include the requirement for significant new investment in order to create awareness among car advertisers (and attract an inventory of products for sale) and to attract an audience of potential car buyers. Websites wishing to attract advertising from automotive dealers would also need to invest in certain online tools to meet their needs as set out at paragraph 60 below.

⁴ A market with these characteristics may be referred to as a 'two-sided market'.

58. For online automotive classified advertising, there are two distinct groups on the advertising side of the market that are readily identifiable:
- dealer advertisers of used and/or new vehicles (**dealer advertisers**); and
 - private advertisers of used vehicles (**private advertisers**).
59. In the Statement of Issues, the ACCC raised the possibility that dealer advertisers and private advertisers may constitute separate product markets. The ACCC invited market participants to comment on the ACCC's preliminary view as to market definition.
60. Further information received after the Statement of Issues indicated that dealer advertisers and private advertisers should be considered as separate, but related, markets for the following reasons:
- dealer and private advertisers have different needs, and meeting these needs requires differing levels of investment and sophistication for website operators. For instance, in order to successfully attract dealer advertisers a website operator must offer support tools (e.g. car inventory and lead management software applications) to allow dealers to load and manage their inventory for multiple cars. It is also an advantage to have a large sales force and other services as set out at paragraph 116. In contrast, private advertisers tend to sell only one car at a time (every few years) and do not require support tools to manage the sale of one car;
 - dealer vehicles tend, on average, to be higher value and dealers have a preference for advertising on sites where buyers are more likely to be seeking cars in the relevant price range; and
 - in order to meet these needs and to maximise their own profits, providers of online automotive advertising sites clearly distinguish between dealer and private advertiser groups, including by offering each of them different price structures and services that are not made available to the other group⁵.
61. Accordingly, the ACCC concluded that the supply of online automotive classified advertising for dealers should be considered as a separate market from the supply of online automotive classified for private advertisers, but it recognised that these markets are closely related.

Geographic dimension

62. While there were some small online providers that have a niche or stronger presence in particular states, the major online automotive classified providers, including Carsales and Trading Post, operate nationally and allow listing searches for content at a local level.
63. Given that market definition is purposive and should highlight the area of competition relevant to the analysis of the acquisition, the ACCC considered the supply of online automotive classified advertising for dealer and private advertisers on a national basis.

Other relevant markets

The national market for the supply of online general classified advertising

64. Another area of overlap between Trading Post and Carsales (through its Quick Sales site) was in online general classified advertising.⁶ Multiple category sites such as

⁵ In economic terms this may be referred to as 'price discrimination'.

⁶ For the purposes of this discussion, no distinction is made between general classified advertising and general merchandise sold in online auctions or 'buy it now' sales. While such distinctions may be relevant to analysis of

Trading Post and Quick Sales bring together a number of different advertising categories in the one place. This may help to provide a critical mass of inventory and audience necessary to serve both sides of the market.

65. For the purposes of the competition assessment, the ACCC considered a national market for the supply of online general classified advertising, encompassing a range of product categories. The ACCC considered that the degree of competitive constraint imposed by other key participants in this market, including eBay and Gumtree, would be sufficient to constrain Carsales post-acquisition, particularly given that Quicksales has a far smaller market share than these competitors. Accordingly, this market is not considered further in the Public Competition Assessment.

The national market for the supply of online automotive display advertising

66. A further area in which Trading Post and Carsales compete is the supply of display advertising, particularly to advertisers with an automotive focus. The main acquirers of this advertising are car manufacturers, car insurers and car financiers.
67. While Carsales has a strong position in this market, Trading Post was not considered to be a particularly strong competitor, and the ACCC's market inquiries indicated that advertisers had many other options.
68. The ACCC considered that no substantial lessening of competition was likely in this market, and as such it is not considered further in the Public Competition Assessment.

Market Concentration

69. Market concentration in the markets for online automotive classifieds was an important component of the ACCC's competition assessment in this matter. This section provides an analysis of market shares in both the dealer and private advertiser markets.
70. The nature of these markets is such that there is no single measure that gives a complete picture of the relative shares of each of the competitors. This arises in part because of the need for providers to attract not only advertisers but also audience in order to generate revenue. The figures can also be subject to short term fluctuations for various reasons, including promotions (such as Carsguide's offer of free advertisements for certain customers following its relaunch, or the Trading Post Good as Gone promotion⁷), advertising campaigns and other factors.
71. As a consequence, in order to obtain a balanced and comprehensive view, the ACCC took into account a range of different time periods and market concentration measures, including:
- **share of audience** – including various measures such as unique browsers, unique audience, page impressions and total time on site;
 - **share of inventory** – including the number of dealer and private advertiser automotive classified listings on each site; and
 - **share of revenue** – derived mainly from paid advertisements.

other transactions, given the lack of competition concern in relation to general merchandise and general classifieds arising from this proposed acquisition, the distinction is not critical to the analysis in this case.

⁷ This promotion offered a guarantee to private advertisers of a full refund for their advertisement if their vehicle was not sold within four weeks.

Share of Audience

72. Audience measures are regularly used by online classified site providers in marketing their sites to advertisers (particularly dealers) and shareholders, and in internal and external (e.g. market analyst) comparisons of performance across online classified websites. Information provided to the ACCC also confirmed that audience measures are used by market participants in analysing the positions of their competitors.
73. In its Statement of Issues the ACCC noted various limitations of audience-based measures, including the risk of double counting and in some instances the exclusion of particular competitors such as Gumtree (from all Nielsen data) and eBay (from Nielsen Market Intelligence data). Carsales submitted that audience measures all, in some fashion, suffer from limitations for the purpose of assessing the competition effects of a proposed acquisition.
74. Despite their limitations the ACCC considered audience measures (including unique browsers⁸, unique audience⁹, user sessions¹⁰, page impressions¹¹ and total time on site¹²) to be an important component of the market share picture¹³; it is highly relevant for advertisers to know how large an audience they can expect to reach through advertising on a particular website, and for market participants to know this information about their own sites and those of their competitors.
75. Table 2 depicts Nielsen Market Intelligence data for a number of online traffic metrics. These figures were also included in the ACCC's Statement of Issues, which noted a number of limitations of these measures including the fact that they exclude eBay and Gumtree.

Table 2: Online traffic metrics - June 2012

	Unique Browsers	User Sessions	Page Impressions	Total Time on Site
Carsales ¹⁴	52%	54%	84%	76%
Trading Post	11%	11%	6%	11%
Drive	20%	18%	5%	6%
Carsguide	10%	9%	4%	3%
Car Advice	7%	8%	1%	4%

Source: Nielsen Online, Market Intelligence, Automotive Information Report, June 2012.

⁸ An estimate of the number of individuals that visit a site in a day based on the number of visits to the site from unique web browsers (using their cookie ID). The main drawback of the Unique Browsers measure is that the same person accessing a site through multiple devices will be counted as multiple unique browsers. This is important when absolute audience figures are relevant (e.g. for display advertisers seeking to compare audience reach across offline and online media) but may be less important for considering the market shares of different sites.

⁹ An estimate of the number of individuals that visit a site in a day based on combining data on Unique Browsers with data on the website visits of a sample of Australians. This methodology aims to correct some of the issues with 'double counting' for the Unique Browsers measure.

¹⁰ The total number of times a site is accessed during the reported period. When used in conjunction with the unique browsers statistic, this gives an indication of how often visitors return to a website.

¹¹ The number of times pages on the site are loaded during the reported period. For example, if a visitor to the site looks at six pages, this will count as six page impressions. Page impressions give an indication of how compelling users find the content of the site as well as the number of visitors.

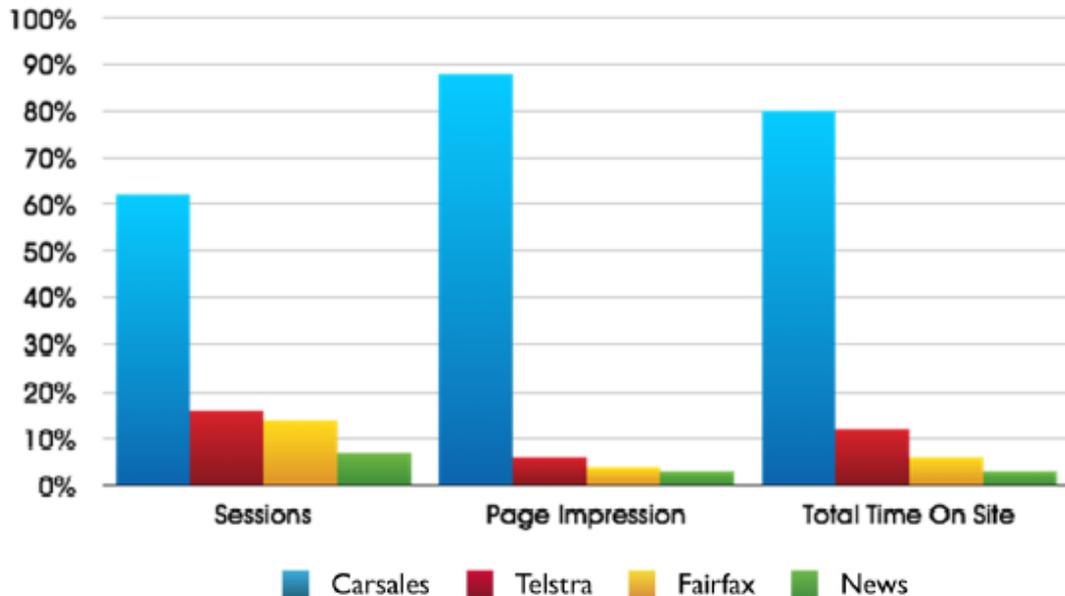
¹² The total amount of time users spent accessing the site over the reported period.

¹³ Other metrics such as sales conversion ratios from leads or ad visits may be a useful indicator of market shares and to some extent competitive strength. However, precise data in a comparable form between companies does not appear to be readily available.

¹⁴ The metrics provided in relation to Carsales are for its carsales.com.au and carpoint.com.au sites; they do not include its other sites, and accordingly may tend to understate the share of Carsales.

76. Graph 1 (from a Carsales presentation to its Annual General Meeting on 26 October 2012) also depicts User Sessions, Page Impressions and Total Time On Site.
77. On these measures Carsales holds a very high share, with 80% of time spent looking at automotive classified sites done on a Carsales owned site. The other competitors shown in the slide are Telstra (Trading Post), Fairfax (Drive) and News (Carsguide).

Graph 1: Online traffic metrics - June 2012



Source: Carsales 2012 AGM presentation.¹⁵

78. Carsales submitted that if audience-based measures were to be taken into account by the ACCC in assessing the competition effects of the proposed acquisition, then the Nielsen Online Ratings measure of 'unique audience' data should be used instead of the measures set out in Table 2 because, in Carsales' submission, unique audience seeks to address some of the limitations of those measures (as noted in footnotes 8 and 9). Table 3 provides unique audience shares as submitted by Carsales.

Table 3: Unique audience shares for automotive classifieds - October 2012

	Unique Audience	Share of Unique Audience
Carsales.com.au	1,235,510	24.5%
Carpoint.com.au (owned by Carsales)	248,025	4.9%
Drive	1,153,055	22.9%
Carsguide	779,828	15.5%
Gumtree	764,000	15.2%
eBay Motors	376,449	7.5%
CarAdvice	257,989	5.1%
Trading Post Auto	222,456	4.4%
Total	5,037,312	100%

¹⁵ Carsales presentation, Annual General Meeting, 26 October 2012, viewed 27 May 2013, <http://shareholders.carsales.com.au/phoenix.zhtml?c=230809&p=irol-presentations>.

Source: Carsales submission (based on Nielsen Online Ratings and Carsales own estimates).

79. Market participants other than Carsales expressed the view that 'page impressions' and 'total time on site' are highly relevant to measuring the market penetration of various sites with regard to car buyers because each gives an indication of buyer 'engagement' with a site. A number of market participants submitted that 'page impressions' is probably the best single indicator of audience market share.
80. The ACCC notes that the audience share figures for both Carsales and Trading Post based on the 'unique audience' measure are considerably lower than the equivalent figures using the online traffic metrics in Table 2. The evidence available to the ACCC showed that all of these measures are commonly used in the industry. All have limitations, but also have relevance to the overall assessment when taken into account together with other measures of market concentration and other factors relevant to competition.
81. Overall, regardless of measure Carsales has the largest share of audience, followed by Trading Post, Carsguide, Drive, eBay and Gumtree, with the ranking order depending on the metric used.

Share of inventory

82. The ACCC also considered inventory listings to be a relevant measure for assessing market share, since it provides an indication of how successful a website has been in attracting advertisers to place advertisements on that site, which is an important determinant of the site's ability to attract audience and ultimately revenue.
83. As shown in Table 4, Carsales has the largest share of inventory for dealer advertisers, the second largest share for private advertisers (behind Gumtree), and the largest overall inventory.

Table 4: Online car classified listings - November 2012

	Private		Dealer		Total	
	Listings	Share	Listings	Share	Listings	Share
Carsales	73,497	35%	154,224	37%	227,721	36%
Trading Post	9,665	5%	45,987	11%	55,652	9%
Carsguide	34,964	16%	126,678	31%	161,642	26%
Drive	4,528	2%	58,735	14%	63,263	10%
Gumtree	83,270	39%	15,794	4%	99,064	16%
eBay	6,304	3%	11,535	3%	17,839	3%
Total	212,228	100%	412,953	100%	625,181	100%

Source: Carsales estimates based upon a count of listings on each website.

84. As with audience share, a limitation of the inventory share measure is the duplication of inventory; many dealers and some individuals advertise on more than one site (i.e. multi-list). For example, some sellers will list their advertisement on a paid site (e.g. Carsales) and also on a free site (e.g. Gumtree).
85. Carsales submitted that inventory measures have a key advantage over audience measures in that they include key competitors and also more accurately reflect the acquisition of classified services by customers.
86. While there are various drawbacks to using inventory as a measure of market share, the ACCC considered it a relevant measure, noting that Carsales had a high share,

especially for automotive dealer listings, and this would increase as a result of the proposed acquisition.

Share of revenue

87. The ACCC also considered revenue to be a relevant measure for assessing market share, since it provides an indication of how successful a website has been in attracting paying advertisers.
88. Carsales submitted that revenue-based market share provides no relevant information because different suppliers of online classified sites have different business models and generate revenue from different sources.
89. The ACCC recognises that some suppliers do have different business models. For instance, some suppliers generate most of their revenue from display or banner advertising, rather than direct from classified advertising.
90. However, the ACCC considered that revenue figures provide an indication of the success of each website in attracting paying advertisers. In particular, revenue provides an indicator of the ability of providers to charge directly, and the willingness of advertisers to pay, for classified advertisements.
91. There are no publicly available figures that compare revenue for all participants in the relevant markets, but based on the information obtained by the ACCC it was clear that Carsales generates the largest share of revenues from car dealer and private advertisers. Trading Post is also a significant player in online automotive classifieds in terms of revenue share.

Competition analysis – markets for the supply of online classified advertising – dealer and private advertisers

92. The ACCC concluded that the proposed acquisition would be likely to substantially lessen competition in the markets for the supply of online automotive classified advertising, both to dealers and to private advertisers, because:
 - it would result in the removal of Trading Post as one of the closest and most effective competitors of Carsales, with an offer that is attractive to dealers and private advertisers, differing in important ways from the Carsales offer; and
 - actual or potential competitors would be unable to impose a sufficient competitive constraint on Carsales to prevent a substantial lessening of competition from arising as a result of the proposed acquisition, including because:
 - Carsales is already the clear market leader and its inventory and audience positions would be strengthened by the proposed acquisition;
 - other competitors are limited in their ability to constrain Carsales; they have much smaller audiences, smaller dealer and/or private advertiser inventory and are unable to match aspects of Carsales' offer, including additional services as outlined at paragraph 116; and
 - barriers to entry and expansion are already high and would increase as a result of the proposed acquisition, including as a result of network effects and vertical integration.
93. The reasons for these findings are set out in the remainder of this section.

Removal of Trading Post as one of the closest and most effective competitors of Carsales, with a distinct and attractive offer

94. Taking into account various measures of market share, confidential information available to the ACCC and submissions from interested parties, the ACCC considered Trading Post to be one of the closest and most effective competitors of Carsales and other market participants.
95. In forming this view the ACCC noted that at the time of its assessment Trading Post's audience and inventory position had declined somewhat over time; before Carsales acquired Carpoint in 2005, Trading Post and Carsales had roughly equal numbers of unique browsers, and since that time Trading Post's share has fallen as Carsales' share has grown (see Market Concentration above for more recent figures). In addition to this long term trend, there appeared to be some reduction in Trading Post's inventory figures over the months preceding the transaction.
96. Nevertheless, Trading Post's share of audience and inventory remained significant. Market shares of key competitors in these markets fluctuate in the short term based upon promotions, advertising, pricing and other factors, While there may be many possible explanations for changes in market shares, market participants considered that reduced promotional and advertising activity by Trading Post as well as increased promotions and reductions in pricing by competitors contributed to this recent decline.
97. The ACCC's assessment did not rely solely on market shares but also took into account the behaviour and offers of competitors in the market. In particular, the ACCC's inquiries confirmed that Trading Post provided an important alternative that was attractive to customers (both private and dealer advertisers), including those dealers wanting to cease advertising or reduce their advertising spend on Carsales' sites.

Competitive alternative provided by Trading Post

98. For dealers, Trading Post offers a subscription-based fee model for a fixed number of inventory listings. Under this model, dealers are able to:
 - advertise the dealer's contact details;
 - promote their dealership brand alongside each car; and
 - receive phone and email queries direct from potential car buyers.
99. The ACCC found that this model is particularly attractive for dealers that want to promote their own brand, as well as those wanting to reduce their marketing spend with Carsales or other site providers.
100. In contrast, Carsales and Carsguide operate a 'lead' or 'blind' model, under which dealers are prevented from displaying dealer branding and contact details alongside their vehicle inventory.
101. Trading Post also provides a range of other options to dealers; for example, data distribution (allowing dealers to send listings to other portals), fully managed data (data entry for listing vehicles), photography and a range of other services targeted specifically at dealers.
102. Market inquiries also confirmed that Trading Post is an important competitor in seeking to attract private advertisers. It has run a number of promotions and advertising

campaigns to promote its branding and to build inventory and traffic to the Trading Post site, including the “Good as Gone Guarantee” referred to at paragraph 70.

103. Confidential information available to the ACCC also showed that Trading Post is closely monitored by competitors, indicating that they consider it to be an important competitor.

Potential inventory sharing or other arrangements involving Trading Post

104. Trading Post also provides a potential partner for competitors to Carsales, either through acquisition or through inventory sharing arrangements, which have the potential to improve the competitive position of these sites by taking advantage of network effects.

Current or potential competitors are unlikely to impose a sufficient competitive constraint on Carsales following the proposed acquisition

105. The ACCC concluded that if the acquisition proceeded, competition from existing market participants would not be sufficient to constrain Carsales. Based on submissions received from market participants, market share figures and other information, the ACCC considered that none of the key players such as Carsguide, Drive, CarAdvice and eBay/Gumtree would impose a sufficiently strong constraint on Carsales to prevent a substantial lessening of competition, post-acquisition.
106. For many dealers, Carsales is their primary choice because of the large audience of potential buyers. Alternative providers such as Trading Post are considered to be important as they provide a level of competitive tension, especially for dealers that want to advertise in more than one place or as an alternative to Carsales.
107. However, Carsales’ leading position in both inventory and audience, combined with certain features of the relevant markets (including network effects), limits the ability of current and potential competitors to impose a close competitive constraint on Carsales.
108. Each of Carsales’ competitors have much smaller audiences, smaller dealer and/or private advertiser inventory and are unable to match aspects of Carsales’ offer, including additional services as outlined at paragraph 116.
109. Many of these competitors have struggled to operate profitably, and to the extent that some have attracted greater market share recently, this appears to have been driven in large part by offers of free advertisements rather than success in selling paid advertisements. As noted at paragraph 34, Gumtree’s increase in private advertiser inventory has not translated into significantly increased dealer inventory, in part due to the difficulty of meeting the additional requirements of dealer advertisers (as set out at paragraph 60) and of matching the breadth of the Carsales offer (as described at paragraph 116).
110. Further, after taking into account the submissions of market participants and the other information available to it, the ACCC concluded that this lack of a strong constraint from current and potential competitors would be exacerbated by the proposed acquisition for the following reasons.

Barriers to entry and expansion are high

111. The ACCC found that there were high barriers to entry and expansion into the relevant markets for the supply of classified advertising.

112. As indicated earlier, the two sided nature of the markets and the associated network effects have important implications for the nature of competition within the markets as well as barriers to entry and expansion. In markets with network effects, new entrants face difficulties in achieving the necessary 'critical mass'.

113. To overcome barriers arising from network effects, a new entrant would need to spend large amounts on marketing and brand awareness to attract both advertisers and consumers, and even this would not guarantee success.

Barriers would increase as a result of the proposed acquisition

114. The ACCC found that the proposed acquisition would raise these already high barriers and reinforce the network effects enjoyed by Carsales. In particular, significant inventory and audience would be transferred from Trading Post to Carsales, further increasing its already high share of both.

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.

Conclusion

119. On the basis of the above, the ACCC formed the view that the proposed acquisition of Trading Post by Carsales would be likely to result in a substantial lessening of competition in the markets for the supply of online automotive classified advertising to dealers and private advertisers in contravention of section 50 of the Act.