

# WEBBER WENTZEL

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## The Competition Commission of South Africa

**Attention:** Noluthando Jokazi

**By email:** [ojpmi@compcom.co.za](mailto:ojpmi@compcom.co.za)

90 Rivonia Road, Sandton  
Johannesburg, 2196

PO Box 61771, Marshalltown  
Johannesburg, 2107, South Africa

Docex 26 Johannesburg

T +27 (0) 11 530 5000

F +27 (0) 11 530 5111

[www.webberwentzel.com](http://www.webberwentzel.com)

Your reference

2021MAY0010

Our reference

B Phillips / A Liebenberg  
3048648

Date

1 October 2021

### Non-Confidential

Dear Noluthando

#### **Online Intermediation Platforms Market Inquiry (the "Inquiry") – Comment on Further Statement of Issues from Cars on the Internet Proprietary Limited (trading as Cars.co.za) ("Cars")**

1. We refer to the request for comments on the Further Statement of Issues (the "**Statement of Issues**"), dated 17 August 2021, issued by the Inquiry.
2. We set out below Cars' comments on the relevant section of the Statement of Issues. For ease of reference, we state the relevant items in bold and italics before providing Cars' responses. We note that some of the issues raised in the Statement of Issues have already been addressed in Cars' responses to the Inquiry's further information request addressed to Cars. Where relevant, we have referred to those responses.
3. Please note that certain information contained herein is confidential. Accordingly, we attach a confidentiality claim on behalf of Cars.

#### ***Item 5. ONLINE CLASSIFIEDS - Platform landscape and trends***

4. ***Question 44: What product categories other than automotive and property lend themselves to high levels of consumer use of online classifieds to drive sales leads, or will do so in the near future?***
  - 4.1 As the Inquiry has noted, online classified platforms appear to have built up most prominence for large once-off purchases where consumers use online research options before going to inspect and make a purchase decision.

2021 10 01 WW To CC (OIPMI FSOI) - Redacted

**Senior Partner:** JC Els **Managing Partner:** SJ Hutton **Partners:** BW Abraham RB Africa NG Alp RL Appelbaum DC Bayman KL Beillings AE Bennett AP Blair AR Bowley J Braum MS Burger M Bux RI Carrim T Cassim SJ Chong ME Claassens C Collett KL Collier KM Colman KE Coster K Couzyn DB Cron PA Crosland R Cruywagen JH Davies PM Daya L de Bruyn PU Dela M Denenga DW de Villiers BEC Dickinson MA Diemont DA Dingley MS Dladla G Driver W Drue GP Duncan HJ du Preez CP du Toit SK Edmundson LF Egypt KH Eiser AE Esterhuizen MJR Evans K Fazel AA Felekis G Fitzmaurice JB Forman L Franca KL Gawith OH Geldenhuys MM Gibson CI Gouws PD Grealy S Haroun JM Harvey JS Henning KR Hillis Z Hlophe CM Holfeld PM Holloway AV Ismail ME Jarvis CA Jennings JC Jones CM Jonker S Jooste LA Kahn ACR Katzke M Kennedy KE Kilner A Keyser MD Kota JC Kraamwinkel J Lamb E Louw M Mahlangu V Mannar L Marais G Masina T Masingi N Mbere MC McIntosh SJ McKenzie CS Meyer AJ Mills D Milo NP Mngomezulu P Mohanlall M Molo N Moodley LE Mostert VM Movshovich C Murphy RA Nelson G Niven ZN Ntshona M Nxumalo AN Nyatumba A October L Odendaal GJP Olivier N Paige AMT Pardini AS Parry S Patel N Pather GR Penfold SE Phajane M Philippides BA Phillips MA Phillips DJ Rafferty D Ramjettan GI Rapson K Rew SA Ritchie J Roberts G Sader M Sader H Samsodien JW Scholtz KE Shepherd AJ Simpson N Singh N Singh-Nogueira P Singh S Sithole J Smit RS Smith MP Spalding PS Stein MW Straeuli LJ Swaine Z Swanepoel A Thakor T Theessen TK Thekiso C Theodosiou T Theunissen R Tihavani G Truter PZ Vanda SE van der Meulen JP van der Poel CS Vanmali JE Veeran B Versfeld MG Versfeld TA Versfeld DM Visagie EME Warmington J Watson AWR Westwood RH Wilson KD Wolmarans DJ Wright M Yudaken

**Chief Operating Officer:** SA Boyd

- 4.2 In addition to the categories already identified by the Inquiry, as well as consumer-to-consumer platforms such as Gumtree, OLX, Facebook marketplace and business-to-business platforms, another potential online classified sector which may drive leads are recruitment platforms, such as LinkedIn Jobs, PNet, etc., though Cars notes that the scope of the Inquiry does not extend to online recruitment platforms. Although the business model of these platforms differs from automotive and property classified platforms, and do not generate "sales" leads, the purpose of these platforms is to connect job seekers with companies and/or recruiters. Cars understands that these platforms, particularly LinkedIn, similarly make use of listings, subscriptions, "booster" packages, etc., and that the platforms are ultimately aimed at generating leads for recruiters and companies in the job market.
5. **Question 45: Do other channels constrain or complement online classified platforms, and if so, which other channels are most important?**
- 5.1 As noted in Cars' response to the Initial Statement of Issues dated 6 August 2021 ("**SOI 1**"),<sup>1</sup> Cars considers its online channel as an important channel for business users to reach consumers and to generate leads. However, supply and demand for motor vehicles exist independently of online intermediation platforms and the majority of automotive purchases and sales are still, predominantly, concluded through in-person sales. Therefore, although consumers make use of online intermediation platforms to search for vehicles, the online intermediation platforms have a very limited impact on the overall automotive marketplace and the volume and value of transactions that take place.
- 5.2 Market research undertaken by data specialists, Lightstone, in 2018, and included as Annexure C.7.<sup>2</sup> to Cars' response to the Initial Request for Information dated 30 June 2021 ("**RFI 1**"), suggests that **[CONFIDENTIAL]**
- 5.2.1 **[CONFIDENTIAL]**<sup>3</sup>;
- 5.2.2 **[CONFIDENTIAL]**
- 5.2.3 **[CONFIDENTIAL]**
- 5.2.4 **[CONFIDENTIAL]**
- 5.2.5 **[CONFIDENTIAL]**
- 5.3 This is also supported by further market research undertaken by Lightstone in 2019 and included as Annexure C.9.<sup>4</sup> to Cars' response to RFI 1, which indicates that **[CONFIDENTIAL]**
- 5.4 It is however important to note that this research was undertaken prior to the Covid-19 pandemic, and that consumer behaviour is likely to have shifted towards digital channels over this period, although the full impact has not been quantified.

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<sup>1</sup> Scope Item 1, Question 1 and Question 5

<sup>2</sup> This annexure is confidential.

<sup>3</sup> **[CONFIDENTIAL]**

<sup>4</sup> This annexure is confidential.

- 5.5 Cars note the Inquiry's preliminary view that business' own web pages are unlikely to place a constraint on online classified platforms. However, as noted in Cars' response to the Second Request for Information dated 20 September 2021 ("RFI 2"),<sup>5</sup> while automotive dealerships who advertise on their own websites are likely to be more focused on advertising their own brands of vehicles, as opposed to the variety of brands listed on the Cars platform, in Cars' view dealers' own websites cannot be entirely discounted as a constraint as leads can be generated through own websites rather than through Cars. This is largely a function of consumer preference for vehicle brands, as well as how consumers elect to search online for available vehicles.
- 5.6 Since vehicle sales still predominantly take place through physical engagements, consumers may also favour end-to-end engagements with the dealers directly. Although, as noted in Cars' response to SOI 1, leads generated through online platforms are unlikely to be entirely replaced in the short-term by dealers' own websites, in Cars' view there is a level of substitutability for leads generated through online intermediation platforms.
- 5.7 This is supported by the market research undertaken by Lightstone as noted above (refer also to the 2019 research included as Annexure C.8.<sup>6</sup> to Cars' response to RFI 1 which shows similar findings to those mentioned above).
6. ***Question 46: Are sales leads and turnover the best metrics of platform importance, or should all metrics be considered?***
- 6.1 As noted in Cars' response to SOI 1,<sup>7</sup> given the two-sided nature of online intermediation platforms, Cars is of the view that several metrics should be taken into account in determining the platform performance.
- 6.2 From a business user perspective, the average stock (vehicles) listed on the platform and the number of business users making use of the platform should be considered. Turnover will reflect these metrics to a certain extent, but not in full as a platform can implement a "cheapest option" pricing strategy to increase platform metrics in the short to medium-term, which will impact on turnover.
- 6.3 **[CONFIDENTIAL]**<sup>8</sup>
- 6.4 From a consumer perspective, in addition to the number of leads generated, the number of active consumers (unique browsers) is an important factor. This is because a scenario could arise where a platform with a relatively low number of active consumers generates a high number of leads. This could potentially indicate that consumers are submitting high volumes of leads through the platform, with a low probability of converting to a sale (i.e., the quality of the platform's leads are poor).
- 6.5 Please also refer to Cars' response to RFI 1, Item 7 for the platform metrics that Cars monitors on an ongoing basis.

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<sup>5</sup> Item 2

<sup>6</sup> This annexure is confidential.

<sup>7</sup> Scope Item 1, Question 4

<sup>8</sup> This annexure is confidential.

**ITEM 5: ONLINE CLASSIFIEDS - PLATFORM COMPETITION**

7. **Question 47: Does the marketing spend of leading platforms reduce visibility and discoverability of smaller platforms through channels such as Google Ads?**
- 7.1 As outlined in Cars' response to RFI 2,<sup>9</sup> to maintain consistent consumer traffic to the platform, the business leverages **[CONFIDENTIAL]**
- 7.2 As further outlined in Cars' response to SOI 1,<sup>10</sup> investments in marketing are, in Cars' view, critical for any new entrant. In addition, given the dependency on Google Search for consumer marketing, the effective marketing cost may increase as more players enter the market, however this holds true for all participants within that market.
- 7.3 **[CONFIDENTIAL]**
- 7.4 **[CONFIDENTIAL]**<sup>11</sup> A smaller platform can therefore still increase visibility and discoverability through Search Engine Optimization ("**SEO**"), which can improve the platform's ranking in Google's organic search results, as well as through above the line / traditional marketing campaigns, with the aim of increasing direct traffic to the platform.
- 7.5 Cars understands the Google Ads bidding process to effectively be auction-based, with multiple advertisers selecting keywords (search terms) to bid on. The bid is then based on the maximum cost per click that the advertiser is willing to pay and the quality score which determines the ad rank. The quality score is made up of the ad relevance, the landing page experience and the expected click through rate, as well as other factors that Google may consider, of which Cars has limited knowledge or control. This again illustrates that marketing spend on Google Ads is not the sole determinant of discoverability, as a smaller platform can improve its quality score through SEO, resulting in higher Google search rankings.
8. **Question 48: Does the listing spend on leading platforms restrict business user willingness to spend on challenger platforms?**
- 8.1 While Cars cannot comment on the extent to which listing spend on incumbent platforms is a deterrent for business users to spend on new platforms, however, as provided in Cars' response to SOI 1,<sup>12</sup> Cars understands that business users make use of various and often multiple online motor vehicle intermediation platforms to generate leads. In Cars' experience, most business users are willing to switch platforms readily if the right offering is available.
- 8.2 Market research undertaken by Cars shows that the single most important factor for a business user when choosing an online platform is **[CONFIDENTIAL]** This is supported by market research undertaken by Lightstone in 2018 and 2019, included

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<sup>9</sup> Item 23

<sup>10</sup> Scope Items 2 and 3, Question 2

<sup>11</sup> **[CONFIDENTIAL]**

<sup>12</sup> Scope Item 1, Question 3 and Scope Items 2 and 3, Question 2 and 6

as Annexure C.7. to C.8.<sup>13</sup> to Cars' response to RFI 1, which indicates that [CONFIDENTIAL]

8.3 The market research undertaken by Lightstone further suggests that [CONFIDENTIAL]

8.4 Business users typically have set annual advertising budgets, which to some extent may limit the number of online intermediation platforms that the business user can concurrently make use of. However, given the ease with which business users can switch to other platforms, the current spend should not be a deterrent to switch to alternative platforms if business users consider their offering to be viable. Business users tend to monitor the efficacy of the platforms and switch between platforms based on their own needs and the platform's performance. In the case of the Cars' platform, business users can cancel with one calendar months' notice and can therefore switch between platforms at short notice.

9. ***Question 49: Does the existence of multi-year subscription contracts hinder business users from contracting with smaller platforms?***

9.1 From Cars' perspective, a business user can terminate its agreement with Cars with one calendar months' notice.<sup>14</sup> [CONFIDENTIAL]

9.2 Cars cannot comment on the business practices of other platforms. However, it is ultimately the duration of subscription contracts and the relevant termination periods that are likely to determine the ease with which business users can switch to alternative platforms. As outlined in Item 48 above, Cars is of the opinion that it is in the best interest of the business user to switch between platforms based on their own needs and the platform's performance.

10. ***Question 50: Is the capability to create useful market insights lie exclusively with larger platforms and does this incentivise business users to list on those platforms?***

10.1 In Cars' view all platforms have the ability to create useful market insights, although the source thereof may be different. Larger platforms can leverage the large volumes of data generated on their platforms from both consumers and business users (so-called "Big Data") to create market insights, although a much smaller number of business users or consumers are required to be statistically representative. Smaller platforms may be able to create deep insights into a specific subset of business users or consumers, whereas large platforms are more likely to create more generic insights.

10.2 It must also be noted that data is not the only source of market insights. Insights can also be derived from other sources including quantitative and qualitative surveys, such as the market research undertaken by Lightstone and included as Annexure C.1. to C.9.<sup>15</sup> to Cars' response to RFI 1, as well as collaboration with global platforms, etc. While Cars cannot comment on whether business users are in fact incentivised

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<sup>13</sup> These annexures are confidential.

<sup>14</sup> See Cars' response to RFI 1, Item 14 and specifically Annexures D.9. to D.15 (contents of these annexures are confidential).

<sup>15</sup> These annexures are confidential.

by the ability of larger platforms to create market insights, it does not view market insights as being a critical factor in respect of platform choice.

- 10.3 Market Research undertaken by Lightstone in 2019, included as Annexure C.8.<sup>16</sup> to Cars' response to RFI 1, [CONFIDENTIAL] These insights can be obtained from third party market intelligence providers, specialising in the provision of such data and insights, small or large platforms, and therefore should not necessarily serve as an incentive for business users to list on larger platforms.
11. **Question 51: Are there any smaller platforms experiencing rapid expansion to the point they may challenge the leading platforms, or has the market tipped in favour of the leading platforms?**
- 11.1 As noted in Cars' response to SOI 1,<sup>17</sup> the Cars platform entered the market after Autotrader, Carfind and Surf4Cars and has grown to scale in terms of stock listed on the platform. Other classified platforms such as Gumtree and OLX appear to have grown significantly and have surpassed some motor vehicle online platforms by number of motor vehicles listed.
- 11.2 Cars is not aware of any other platforms that have recently experienced rapid expansion. However, as previously mentioned, Cars understands that many consumers and business users make use of multiple platforms and given the fast pace at which online channels grow, achieving scale is not insurmountable if the right investments are made, including investments in technology, consumer marketing and marketing, selling and onboarding of business users.

**ITEM 5. ONLINE CLASSIFIEDS - BUSINESS USER COMPETITION AND TREATMENT (INCL. SMES)**

12. **Question 52: Does the shareholding of some business users in a leading online platform create potential for conflicts of interest, preferential treatment or the flow of information of strategic value?**
- 12.1 This is not applicable to Cars. There is no shareholder in Cars that is also a business user. Refer to Cars' response to RFI 1, Item 1 Annexure A.1.<sup>18</sup> for the Cars' group structure.
- 12.2 Although Cars cannot comment on the extent of any potential conflict of interest such shareholdings may create, it is not inconceivable that, without the necessary safeguards in place, this may create opportunities for self-preferencing, preferential treatment and/or access to confidential, competitor information.
13. **Question 53: What is the extent of participation of SME and HDP business users within the auto dealership and estate agency business more broadly, and on online classified platforms more specifically?**

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<sup>16</sup> This annexure is confidential.

<sup>17</sup> Scope Item 1, Question 3 and Scope Items 2 and 3, Question 4

<sup>18</sup> This annexure is confidential.

- 13.1 From an automotive dealership perspective, Cars cannot comment on the extent of participation of SME and HDP business users within the auto dealership market as a whole.
- 13.2 **[CONFIDENTIAL]**<sup>19</sup> **[CONFIDENTIAL]**.<sup>20</sup> **[CONFIDENTIAL]** It must be emphasized however that not all SME or HDP-owned firms necessarily make use of the Flexi package. Unfortunately, Cars is unable to confirm the SME or HDP status of all business users on the platform.
14. **Question 54: Does the provision of volume discounts around listings impact on the participation of SME and HDP business users?**
- 14.1 Cars cannot comment on the experiences of SME and/or HDP owned businesses specifically. However, Cars' does not view the provision of volume discounts as having a deterring impact on SMS and HDP users. While group dealerships for example are able to obtain discounts, SME and HDP owned businesses are not in any way disincentivised to list the Cars platform, particularly since discounts or packages does not have any impact on search rankings. As noted in Cars' response to SOI 1,<sup>21</sup> Cars launched the Flexi package in 2020, as the business recognised that the existing packages, **[CONFIDENTIAL]** may be too expensive for smaller dealerships **[CONFIDENTIAL]** This package therefore aims to improve the ability of smaller businesses to make use of the platform.
- 14.2 Since launching the Flexi package, several business users have made use of the Flexi package, as set out in Cars' response to RFI 2, in particular Annexure C.2.<sup>22</sup> As noted above, not all SME and HDP business users necessarily make use of the Flexi package and this is therefore not representative of all SME or HDP users on the platform.
15. **Question 55: How effective is sponsored ranking and featured listing in improving customer visibility and the volume of page views and leads?**
- 15.1 As stated in Cars' response to SOI 1,<sup>23</sup> there are several factors that could impact on the performance (views and leads generated) of vehicle listings, other than the search ranking or whether the listing is a featured display or not. **[CONFIDENTIAL]** This is further described in Cars' response to RFI 2.<sup>24</sup>
- 15.2 From Cars' perspective, once a dealership has subscribed to a base package, the dealership also has an option to further augment their presence on the platform through a premium package, which showcases the dealership's vehicles more prominently amongst other vehicles on the platform. Importantly, premium listings are not displayed at the top of the search results, unless it qualifies as the top listing based on the consumer's sorting choice. Premium packages also allow the dealership to

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<sup>19</sup> Section C, Annexure C.2. (this annexure is confidential)

<sup>20</sup> **[CONFIDENTIAL]**

<sup>21</sup> Scope Item 6, Question 1

<sup>22</sup> This annexure is confidential.

<sup>23</sup> Scope Item 5, Question 1

<sup>24</sup> Item 18.2

showcase a more detailed 'About Us' page on the Cars platform. Cars does not provide any packages that influence or improve ranking.

15.3 [CONFIDENTIAL]

16. **Question 56: What is the extent of sponsored ranking and featured listing use by SME and HDP business users relative to large business users? Does any difference in use impact on participation by SMEs and HDP business users?**

16.1 As previously mentioned, Cars launched its Flexi package in 2020, with the aim of providing market access to small, independent dealers. These include dealers controlled by HDPs.

16.2 [CONFIDENTIAL] However, as noted above, not all SME or HDP-owned firms necessarily make use of the Flexi package. Unfortunately, Cars is unable to confirm the SME or HDP status of business users on the platform.

16.3 In terms of featured displays, SME or HDP-owned businesses that may still be relatively small in size may not always be able to pay for a premium package.  
[CONFIDENTIAL]

17. **Question 57: Should classified platforms be doing more to promote SME and HDP business user development, and if so, how?**

17.1 Cars favours an approach whereby smaller business users, including SME and HDP business users, are assisted in entering the market. It is for this reason that Cars launched the Flexi package. This package therefore aims to improve the ability of smaller businesses to make use of the platform.

17.2 Cars notes the Inquiry's preliminary view that "given the differential treatment on other aspects of platform access such as listing fees, it is not apparent that these necessarily offer a net benefit to SMEs and HDP users." It is important to emphasise the fact that (i) the Flexi package is intended to facilitate entry by smaller dealerships, and (ii), perhaps more importantly, dealerships utilising the Flexi package are afforded the same opportunity in terms of exposure to prospective buyers. Cars also provides a dedicated online support team to Flexi customers, providing insights as well as digital sales and advertising guides. In Cars' view there is definitely a net benefit to having the Flexi package as it allows smaller dealerships an equal opportunity to make use of the Cars platform.

17.3 As further noted in Cars' response to RFI 2,<sup>25</sup> Cars is committed to working with SME and HDP business users and has made recent changes to the Flexi package (less than one year after launch), based on ad-hoc feedback received from the dealership market. The Flexi package is regularly updated through feedback received from the market. Cars welcomes initiatives from other online classified platforms aimed at promoting SME and HDP business user development and participation.

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<sup>25</sup> Item 32

18. Please do not hesitate to contact us should there be any queries regarding the above submissions.

Yours sincerely

**WEBBER WENTZEL**

Burton Phillips

Partner

Direct tel: +27 11 530 5086

Direct fax: +27115306086

Email: [burton.phillips@webberwentzel.com](mailto:burton.phillips@webberwentzel.com)

*Letter sent electronically. A signed copy will be provided on request.*