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PANEL: *James Hodge – Chairperson
And Doris Tshepe*

TECHNICAL TEAM

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CCSA Internal Team

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COMPANY: Autotrader



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CHAIRPERSON: Good morning, and welcome to the Wednesday session of the third week of the Online Platforms Market Inquiry public hearings. Today we are continuing with online classifieds and today is dedicated to automotive, so we are beginning with Autotrader, a well-known brand I am sure to consumers. Car Find is after that in the morning session and then at 14:00 we have Cars.co.za.

So I would like to introduce from Autotrader
10 Mr George Mienie, the CEO and then also Mr Shoerd Niekkelen who is the General Manager for OLX South Africa, he also joined us yesterday with Property 24. So welcome, gentlemen.

MR MIENIE: Morning, Mr Hodge. Morning, Sjoerd.

MR NIEKKELEN: Good morning, everyone.

CHAIRPERSON: I am obviously joined in the panel by Ms Tsepe and then also the technical team who have been probably dealing with you as well.

MR MIENIE: Morning, guys.

20 CHAIRPERSON: Mr Mienie, I believe you have a presentation, so I am going to hand over to you to share it in the virtual stage and then run us through that.

MR MIENIE: Great stuff, thank you Mr Hodge. Let me just get my screen sharing up here. There we go. Can you see that?

CHAIRPERSON: We can, yes.

MR MIENIE: Alright. Hi, Mr Hodge and hi to the Competitions Commission Panel and to all the public watching and thank you for having me and Autotrader and thank you for giving us this opportunity to present on this Online Intermediation Platform Market Inquiry on Autotrader particularly.

As Mr Hodge mentioned, my name is George Mienie, I am the CEO of Autotrader and my objective today
10 is to take you through the history and very high level business model of Autotrader and seeing that this is a public hearing there is a substantial amount that I cannot speak to, but I am happy to speak to it in any private session.

So broadly, to create some structure I am going to take you through five key areas and jumping you know, right into the first key area and, or should I say before I jump into the first key area, personally I have been with Autotrader since 2004 when the company was purely a print business and today having a deep understanding with my team of the
20 South African automotive industry as well as digital platforms Autotrader has become an online only two-sided marketplace, but it did not start there.

Autotrader was established in 1992 by Autotrader in the UK in its print form and Autotrader South Africa grew to become a household brand name, distributing and selling

over 110 000 magazines per month.

Autotrader's print and distribution footprint was unmatched and hard to compete with, there were not many printers at the time who could print the volumes and size of the magazine that we fortunately printed, but what was Autotrader's biggest competitive advantage became its biggest disadvantage, as we needed to change, or as the business world puts it; pivot.

This change took a very long time in South Africa
10 because South Africa is very unique, in fact our digital transformation was very slow compared to the rest of the world's Autotraders.

In a nutshell, we had to find a way to measure how in market car shoppers' attention was shifting from print onto the internet, which was a very difficult thing to do those days and you know, looking at this chart in hindsight, it was 2020, but if you put yourself in the midst of this internet digital transformation, we had to understand the consumer.

So we implemented call tracking at the time across
20 our print magazines as well as our digital platforms to try and understand how the consumer was shifting and how fast they were shifting. This shift was our primary focus, but it left us very vulnerable, by 2017 however we had become a fully fleshed online business on the cost, I must mention that we closed our commercial and agriculture magazines last

year during Covid, but that part of our business is a very small part of the grand scheme of things. So today I am going to be talking mainly about cars.

With 100% of our car revenue coming from online sourced by 2017 a small caveat in that, I mentioned the commercial and agriculture magazines closed during the pandemic, would have closed anyway probably by the end of last year, so the pandemic hurried it along by probably about 12 months.

10 So we are now truly an online only two sided vertical marketplace platform serving buys and sellers of vehicles. Our mission is to create a trusted, safe and transparent vehicle marketplace that empowers, enables and improves the lifestyles of those that we connect. We have learnt to harness the online network effects iteratively over many years as the business has grown.

20 I must point out that harnessing the power of network effect is not binary, it is every day and we do so more now that we could do with a magazine weighing us down. As I said, it left us vulnerable and I would like to pause there for a second, because taking advantage of scale and being able to drive value to our consumers as well as our business users by harnessing these principles has come over a long 15 year journey by consistently iterating towards the perfection of the day.

In saying that, the success of Autotrader is not correlated to who its shareholder is. We have had three major shareholders since 1992 and every one of them have followed the same oversight principle, which is decentralised management. The management of Autotrader have remained unchanged for more than a decade and this, coupled with the business' single sustainable competitive advantage, its people is the reason why we are the market leader today.

While OLX [indistinct – 00:07:11] has given us the
10 opportunity to in source our technology teams and create local jobs, we as a management team remain in control of operating this business, but Autotrader has had to pivot, even if slightly, a number of times already.

From its launch in 1992 to the changes that have become more and more frequent as we have had to keep up with the market and the competitive forces, we have had to change a number of times. So moving on to how Autotrader's business actually works and to articulate this let me start by describing what our commercial offering looks
20 like in terms of our rate cards.

Now because of time I have used a typical independent dealer rate card for used car, but the typical principles remain the same across the other channels. Our business sells products to do two things mainly, mostly retail based classified adverts, they would get consumers'

attention, convert into leads and help sellers sell cars and then to help businesses, business users build a trusted brand.

Autotrader's prices to business users come down to also two main, basic things; the volume of listings, this incentivises business users to list all their listings on Autotrader, the value a product delivers versus other products. This is not an exact science and the listings and users are changing all the time, which means that the
10 metrics are changing every time and also bear in mind that every used car in every dealership is unique in its own right on our platform.

What I have not included here, but happy to talk to in Q & A or even in private sessions, is banner advertising, but if you want to we can get into that a little bit later. So step one, the business... I am just going to take a sip of water, if you do not mind.

Business users have to take our standard listing products in order to get onto our platform. This is a monthly
20 subscription based on the number of vehicles listed, and differs per region. Then there is a range of what we call VAS or value added products and in no particular order dealers can subscribe to what we call listing stand-out, which gives the business user a deeper listing and a carousel of photos on the search results page. A minority of business users

take this product.

Also dealers can subscribe for dealer branding, that is the dealer's logo also on the search results page. A minority of users also take this product. Then dealers can subscribe to what we call featured listing, which is a contextual advert appearing in position zero or position one if you would like to call it that, but it is at the top of the search results page and it is split into three tiles if you go onto the search results page.

10 Each tile contains a different dealer's listing for every contextual search by the consumer and even lower minority of dealers subscribe to this product and the last but not least, dealers can subscribe to featured dealer, which is three contextual listings side by side from one particular dealer, roughly in position 12 or 13, depending on whether you count the features listing as a position and whether you count the banner in the middle of the page as a position, but it is clearly marked as featured dealer and even lower minority of dealers subscribe to this product.

20 Then lastly moving away from value added products or services, dealers can upgrade their standard listing package to premium, their listings will then appear above the standard listings on the search results page. A minority of dealers take this product as well.

In addition to all this we also provide the market

with industry, or should I say provide the industry with free market intelligence reports built from our own ammonized click stream data, as well as researching studies that we do. You can access, this can be accessed anybody that goes to reports.autotrader.co.za and it is free to download and in the driver for consumer transparency we have recently launched a free car valuation on the main portal, Autotrader.co.za, which can be reached at Autotrader.co.za/car/valuation and as I said, that is in the drive for transparency, which the
10 consumer wants.

On the business user side, business users use what, our listing capture tool that we refer to as manage, so the tool is referred to as manage, so if you hear me refer to a tool called manage, it is the listings capture tool to get listings onto Autotrader. Roughly 80% of business users use our listings captured to get listings on to Autotrader. We also provide data and insights to every user of our manage tool and that gives insights into the performance of that dealership's listings.

20 We also monetize data through our live market pricing tool called Fusion. There is a very low single digit percentage uptake of this particular tool at the moment.

Autotrader, however, does not operate in a vacuum and we have many competitors, some direct, some indirect and some consumers who could become competitors in the

future, but as you will learn a little bit later on, those are not the main competitive threats, while they are fierce competitive threats, they are not the main competitive threats potentially in the future.

So the market is rife with competition. Getting access to listings, getting access to consumer attention is not difficult. Hosting a platform even is not difficult with things like cloud computing today.

An internal example of a start-up, or should I say an
10 international example of a start-up that is now the head of the previous incumbent in the USA is Cargurus.com who came from nowhere to take the leading position in the US against the incumbent who started in the lead, the difficulty therefore is not access, it is not getting user experience, it is getting user experience right and changing at the right place with the consumers and business users' needs at the right time.

So let me repeat that, the difficulty therefore is not access, it is getting user experience right, but not only
20 getting it right, getting it right at the right pace for consumers and business users, a balancing act that Autotrader South Africa has worked extremely hard on to bring us to the position that we find ourselves today.

In South Africa Cars.co.za is the major vertical platform rival of Autotrader and the exactly the same car

shoppers search for cars across both platforms in South Africa. I must point out that this overlap is likely much bigger, but we only have one tool to use and that is similar web to really compare.

The difference between Autotrader and Cars.co.za, however, is that Autotrader is better at retaining users. More users return to Autotrader than to Cars.co.za and this I believe is because of the superior user experience that we have managed to iterate to up to now. Users prefer
10 Autotrader, that is why they keep returning, but it does not end with Autotrader and cars.

Just under half of Autotrader's total audience visits at least one other direct competitive platform and when considering the full automotive market, including sites beyond vertical platforms like Autotrader, it is clear that car shoppers, in fact 88% of car shoppers visit multiple websites in their car shopping journey such as OEM automotive brands, car dealers, automotive news portals, et cetera.

So in terms of competitive history Cars.co.za, as I
20 said, is the main rival, but it was not always that way. Cars.co.za was not always the main rival of Autotrader, and I am only going to speak for the digital world right now, because there was an even different rival in the print days, Car Find was.

Car Find was one of the first online platforms in the

early years and we thought Car Find was going to be there all along and we kept a very, very close eye on them, however from left field came Cars, took the number two spot from Car Find and nearly disrupted Autotrader's number one spot.

With the growing internet base in South Africa low cost only disruptors can come along and disrupt the incumbent and the complexities, as I said earlier on, of us focusing on moving a print business to a digital business
10 was the thing that was weighing us down.

In the print days we operated for the most part at the lower end of the funnel and we nearly got disrupted by Cars.co.za, because they begun building a brand using content, something that was a foreign concept to Autotrader. We were a pure classifieds business, and they did a great job and they still do.

So Autotrader begun its content journey only in 2014 and we are going to get to the funnel a little bit later on and then some of this will contextually make sense to those
20 viewers that are watching.

This was some five years after Cars.co.za started with their brand building content journey, because up to then we were squarely focused on digital transformation of an existing classifieds only print business and since the internet there are a myriad of new entrants. The latest only found, I

only noticed them last week as a matter of fact, is Carfindme.co.za.

I would like to point out that on the bottom right is Automart, our biggest competitor in the print days, and then also point out Auto Dealer who is owned by the Caxton Group, one of South Africa's biggest community news companies. They had even deeper pockets than Autotrader and could have trumped our pace of user experience, but they have not.

10 So in addition to all of this business users multi-home their listings, besides consumers multi-homing, if you can call it multi-homing, visit multiple sites, business users multi-home their listings. I think that this number is probably around...

CHAIRPERSON: Mr Mienie, I do not know if you can hear us still. You seem to have frozen.

MR MIENIE: Just on that Mercedes Benz C Class, there are two ... [intervenes]

CHAIRPERSON: Sorry Mr Mienie, you froze for a moment
20 there. Do you want to take us just back to the beginning of your discussion of this slide?

MR MIENIE: Sure, no problem. I start there. Can you hear me now, Mr Hodge?

CHAIRPERSON: Yes, we can.

MR MIENIE: Ja.

CHAIRPERSON: I think you finished this slide, we heard that. It is the next one you went and froze, so we did not hear what you had to say.

MR MIENIE: No problem. So business users multi-home their listings. I think anecdotally that this number is, you know from all of the experience of the last 17 years this number is probably around 80% of listings are on more than one platform.

10 The trouble is, excuse me, the metadata structures and naming conventions are different across all businesses in the market. We describe dealers differently, we describe listings differently, making matching very, very difficult and so besides direct and vertical or automotive market competition there is an even bigger competitive threat looming to Autotrader in the future and that competitive threat in these companies, which are not South African, if they got their data structures in order could give all South African verticals a run for their money.

20 Why? They have the consumers' attention every single day. They also in many instances, like Facebook, know the identity of the user, which makes targeting an in market car shopper even easier. So while Autotrader has 10 million visits per month, it is actually moving up the car shopping funnel through content marketing in order to stay off these threats as far as possible. So we have to agree

that Facebook Marketplace and Google pose a massive threat as they move down the funnel towards the transaction itself.

Then moving off the competitive landscape, you know and given that we do not have enough time to get through all of the detail, I have left a lot out as a result of this being a public hearing, as I said in the beginning and I am happy to share those in closed sessions, Mr Hodge and the panel, but I want to give you a flavour for the car shopping journey and the car shopping journey is very complex. It is not linear.

This particular slide generated by Google shows 21 touch points in the car shopping journey, sorry 26 touch points, 21 of which are digital. Web consumers spend about 38 hours shopping for a car, now that is not 38 hours back to back. It is not somebody sitting for an entire weekend, Monday, Friday to Monday or Monday to Friday searching for a car, this is over months of shopping for a car in some instances and this is Autotrader's study, it is not Google's study, so I do not want you to get confused with the previous slide.

They do so across multiple platforms in the physical world as well as the digital world, however another nuance exists and this analysis is pre Covid, which I note is a reference in terms of us going back to pre Covid times, so I

just want to point out that this study is pre Covid, but attribution is not easy in a vertical platform, especially a transparent vertical platform.

Our studies show, and this is backed by international studies as well across other vertical platforms in the automotive industry, that the majority of car shoppers do not take any action on a platform like Autotrader, they simply visit the dealership, especially if they are very low down the bottom of that funnel or if the car is incredibly
10 unique and this is important to the remainder of my story in that car shoppers prefer transparency and it is something that most platforms or vertical platforms are striving for.

Car shoppers also prefer anonymity. It is not a coincidence that 62%, in two slides ago, 62% of users in our study make no prior contact through the platform before going to the dealership until they are ready to buy, but in the world of two sided marketplaces with consumers who want transparency and anonymity most of our visits come from Google. More than 75% of our visits in fact come from
20 Google, either organic or paper click.

While the journey from paper click or organic are very similar, I am going to use organic as an example to describe or give you a flavour of a typical user journey. A user would typically search in Google for a car by make or model or make, model and variant.

Now I want to point out at this point that there are hundreds of different features on cars coupled with the makes, models and variants, so this long tail search gets very long and make, model and variant is what we refer to as short tail search and it is typical of a car shopper slightly higher up in the purchasing funnel, long tail search however is where lower funnel in market car shoppers are and is typically identified through longer strength keywords, text searches in Google and in this particular example contains
10 the suburb perhaps.

Autotrader can only get one spot amongst the four, no matter how much we spend and as you know, Google start at the top of the page and organic underneath that. So I said I was going to be using the organic journey, so by clicking on the organic link that you see here where Autotrader ranks first organically, Google Search is where Autotrader has the most influence over the consumer visiting our platform. After this click we consistently lose influence over the user journey and this will become apparent shortly.

20 On this click the shopper lands on the search results page, what we refer to as the search results page on Autotrader. The listings are ranked by price, high, low, except for the featured listing and featured dealer, which I took you through a little bit earlier on, I would like to point out to you though that on this particular example there are

103 results across six pages in this example. You cannot see the bottom of the page, but there are six pages in this particular example and this is important, because this is a typical example of where on average, unlike in Google, the number of pages per visit is very low, but then a strange thing begins to occur.

Shoppers begin to filter and Autotrader loses even more influence over the shopper journey as a result of the uniqueness of the car, the uniqueness of the dealership and
10 the consumer's appetite and the number of pages presented as the consumer filters gets less and less and falls below the 7.5 average that I showed you in the previous slide.

In fact, search filters are used so extensively, on average 97% of the time and if you remove make, model, 60% of the time, if you remove make, model and variant, and because business users, the business user is in control of so much on the listing it causes what we would like to refer to as the long tail of CAVs.

Now a consumer advert view, I am getting to that
20 next, is the next click from the search results page where the business users, no matter what package they are on, gets value. It just depends on how they present the car, what car it is, what it is priced at, how they present the photographs, how they describe the car, so Autotrader loses even more influence over the car shopper and the influence now shifts

towards the business user.

The car shopper then clicks on and executes a lead via the contact form on the right hand side of the CAV, of the consumer advert view or the advert view, whichever you would like to refer to it as. Internationally they refer to it as the VDP or the full page ad, so those are all synonymous.

Remember a couple of slides ago pre Covid 62% of users do not take that action and I would also like to point out that the majority of contacts in the Covid era now is
10 phone calls, whereas it was not as high as a percentage pre Covid. These actions are taken roughly half a million times a month and a very small number of visits on Autotrader convert at this level, as you can see roughly about 2%, and this is where the journey ends in my slide presentation because after this the bucket, the lead bucket becomes really, really leaky. We do not follow the consumer to the sale of the vehicle.

So I am going to move on and consider some strategic areas and that firstly the reality is that the, no
20 matter how successful a platform is we have to continue to battle for the attention of the consumer. There is no sitting back and coasting. We need to be the best of the best all the time in those pillars that you see on the screen, which is we need all the listings or as many of them as we can get, we need to ensure the best quality on our platform.

Remember, a lot of that influence and a lot of that quality comes from the business user.

We need to have quality search and quality user experience and we need to create trust so that the buying consumer trusts the listings on the platform and these are the things we have to focus on to attract the attention of the consumer in order to stay relevant, because the consumer votes with their click from Google.

Other strategic considerations of a platform like
10 Autotrader is the fact that barriers to entry are now low in the online world, the playing field is also levelled with the internet and we face bigger competitive forces like Facebook Marketplace.

So in closing, we do not design cars in South Africa, in fact we just assemble them, but that assembly means tens of thousands of jobs and foreign currency inflow into the country. South Africa faces a real risk becoming another Australia by importing all our cars instead of manufacturing them locally, because we may not be moving quick enough.
20 It seems like we are gaining some momentum, but if you asked me this question two years ago I would have said we are not moving fast enough.

Why is that relevant? Because similar to that risk in today's world of the global internet Autotrader is the little guy, so if Autotrader's ability to grow is slowed we would be

opening a door to importing Google and Facebook. Thank you, and I am happy to take any questions now from the panel.

CHAIRPERSON: Thanks, Mr Mienie. I admit I am a bit out of breath, it was quite a rapid tour through, but thank you for that. I may not have got everything right, but we can go back to that. I just want to start with something a bit different, I mean Property 24 yesterday ended off with their concluding slide with their BBEE score, I just want to know
10 what Autotrader's is.

MR MIENIE: So we ended on a level 6, to my knowledge, and we are striving to get to a level 5.

CHAIRPERSON: Alright, because Property 24 was a level 7, so a little worse than you, but I just want to understand, I mean in the South African context level 6 is not very good, is it?

MR MIENIE: Well, that is why we are striving for a level 5 and above to progressively improve the score.

CHAIRPERSON: And have you always been at a level 6?

20 MR MIENIE: No, we were actually noncompliant for a while.

CHAIRPERSON: Until when?

MR MIENIE: Until this particular round.

CHAIRPERSON: So until this year?

MR MIENIE: Ja, until this year, until this particular year.

CHAIRPERSON: Okay, so you were noncompliant.

MR MIENIE: Yes.

CHAIRPERSON: I mean is this a focus, maybe Mr Niekkelen, for the OLX Group.

MR NIEKKELEN: Absolutely it is and that is one of the reasons that we are now making progress on this.

CHAIRPERSON: I mean it has come late, but I suppose let us at least see if you can move that forward, because I think ... [intervenes]

MR MIENIE: Sorry Mr Hodge, I just checked while you were
10 talking to Mr Niekkelen, we actually reached level 5, my apologies. We actually reached level 5. We are on the cusp of level 6 and 5 and we actually moved over to level 5.

CHAIRPERSON: Thank you, and I suppose cars also has a reputation for being a male world, I mean what is the kind of gender representation within Autotrader?

MR MIENIE: You would be surprised to find out that the gender representation is actually very skewed towards previously disadvantaged individuals as well as female in Autotrader.

20 CHAIRPERSON: Well, that is encouraging certainly. Can I just ask on this journey when OLX came into the picture?

MR NIEKKELEN: I may speak to that, yes. We finalised the acquisition of Autotrader in the second half of 2017.

CHAIRPERSON: Alright, so well into the digital journey.

MR NIEKKELEN: Absolutely, and one of our observations at

that point in time was that the Autotrader brands have fantastic following, we saw commercial opportunity, we realised though that the product, the technology that Autotrader was using was below what we thought it should be and that is aligned very well with our strengths and hence we acquired Autotrader and have subsequently invested in its platform and I think it has improved significantly.

CHAIRPERSON: So I think we had, I mean partly this discussion yesterday around Property 24, what brought
10 really is technology more than funding in this case.

MR NIEKKELEN: I would say so, yes. When we acquired Autotrader it was profitable and therefore again our contribution is mostly on the technology side.

CHAIRPERSON: Not capital injection?

MR NIEKKELEN: Correct, correct.

CHAIRPERSON: Mr Mienie, as you are the first person coming from this sort of auto side, can we just understand sort of the dealership landscape in the country? I mean, maybe if you can sort of indicate, we have seen some large
20 groups, I think many groups, individual dealers, so just give us a sense of the landscape in the country.

MR MIENIE: Sure. So I am going to talk to this from you know, what I believe over the last decade and a half, so just to kind of qualify the fact that it is very, very difficult to count the number of dealerships in the country. We have tried this

a number of times and so we get to a particular number and we are happy with that, but it is very difficult to count the number of dealerships.

We believe there are somewhere between 1700, 1800 dealers, maybe up to about 2000 used car dealerships in South Africa and that is made up of group dealerships and bearing in mind that OEMs, originally equipment manufacturers that assemble cars or import cars do not by and large, there are some examples, but do not by and large own dealerships, dealership groups own dealerships.

So there are a couple of dealership groups and those dealership groups make up roughly, which contain mostly franchise dealerships, make up roughly about 20% of the dealer base, the rest is made up of independent dealers, which is you know either a one man show or a small dealer group what we refer to as a mini group, and there is dealerships ranging in size from anywhere from you know, down to 10 listings all the way up to hundreds of listings.

If you put the dealers together within a group you get thousands of listings, but there is very few single dealerships that have thousands of listings.

CHAIRPERSON: And just can you just give us some examples of the sort of group dealerships and then the mini groups, just so I think ourselves and the public can sort of associate it with brands we see.

MR MIENIE: Do you want actual names?

CHAIRPERSON: Correct, yes.

MR MIENIE: Okay. So an example of a dealership group would be Safau, would be Barlow World, would be, so those examples are big dealer groups, super group and then mini groups would be the Saffi Group, Geys Pitzer, I am trying to just grab dealers out of the top of my head, so excuse me.

CHAIRPERSON: No, that is fine. I think we got a bit of a sense, and I suppose the group dealerships if I understand
10 are often linked with the OEMs, as I think you put it. So they have got the new car sales, but they also do the used cars through that, obviously as trade-ins and alike.

MR MIENIE: Correct, mini groups also have franchise agreements with OEMs, so it is not only the big groups that have franchise agreements.

CHAIRPERSON: And just some of the, I suppose the dealership economics on used cars and selling of used cars, I mean obviously they would purchase or get a trade-in wherever they source it from, at a certain price. They may
20 add their mark-up and may even have costs in order to fix up, so I mean what are we looking at in terms of the kind of margins and between the cheap cars and the more expensive cars on used rather than new?

MR MIENIE: From my experience there is a concept called first gross and a concept called second gross and then a

concept called value added products, so if I can bucket it into those three areas for now.

First gross is the margin on the, what is referred to as the front end of the car, so it is the actual profit margin on the cost of the car itself. Typically from what I have seen those margins range anywhere from, on average 8 to 12% and can be north of that, depending on the demand for the particular make, model and variant. If it is very low demand and high supply, that margin does plummet, classic
10 economic model. So that is the first gross front end.

So typically you know, you could use the maths in terms of an average car is in the region of R300 000, the first gross would bring it about R30 000 if you use 10% in the mid range.

The second gross is the margin the dealer makes on the finance of the vehicle, so they get what is called a DIC on the finance of the vehicle. Typically that DIC in a lot of instances almost matches the first gross in terms of quantum, so different dealerships have different DICs. So it
20 is a difficult one to talk to, because it depends on how much business that particular dealer puts through the bank.

So also in my experience not all cars are financed. I would guess in today's world probably 50%, maybe even two thirds of cars are financed, which if you use the lower end of 50% and you use the same margin you are getting

another R15 000 in profits in my mathematical example, which takes you to about 45.

Then dealers sell value added products or value added services and those range from insurance type product to scratch and dent, tyre insurance, motor warranties on which that world is quite complex in that it is sometimes a single payment and sometimes recurring revenue from the insurance provider to that dealership, depending on the deal that they have. I hope that answers your questions.

10 CHAIRPERSON: No, that does and obviously I suppose the percentage depends on the value of the car, but again as you say it is supply demand and presumably they would have a range of cost, advertising obviously, salespeople, rental, whatever to do all that.

I just want to understand as well almost the landscape from the perspective of historically disadvantaged individuals in auto, you know the Commission has recently put out guidelines around service, repair and maintenance I think as you are aware, which is almost necessitated by the
20 fact that it seemed that previously disadvantaged, and this is I suppose service, not necessarily just used, but hey often go together, were generally quite excluded from the networks of OEMs, of insurance companies, so it had a consumer angle as well obviously, the right of choice.

So I mean, from that our impression is that at least

the big dealerships and the sort of high volume locations are not frequented by historically disadvantaged individuals, it is more of a marginalisation, but let me ask you what your impression is as someone who has been in this industry.

MR MIENIE: So like most other things in South Africa I think the transformation journey is important and I cannot speak to exact numbers, because our focus up to now has been to try and become BEE compliant, so I cannot speak to the actual ownership structure of dealerships, it is not
10 something we have delved into, however I can see that transformation is something that is important to this industry or should be important to this industry as well.

CHAIRPERSON: I mean, from that I understand then or I would interpret that it has not been something that I suppose, and I am not saying you, you know you are not the dealership, but it has not occurred at a substantial pace. Would that be fair?

MR MIENIE: Well, I cannot confirm or deny that, Mr Hodge. You have got to also bear in mind that the dealership
20 network, 80% of them are very fragmented and single owner businesses, so I think you know, if anything that is what I see, it is a very fragmented dealership market which might play into some of the difficulty that you speak of.

CHAIRPERSON: Alright because we had, I mean we had numbers for property and this is obviously not property, but

our impression is it is not necessarily much better, but let me leave that there if you do not have any more information for us.

I just wanted to go to sort of your business as well, I mean you have mentioned that 75% of journeys start on Google, so I presume marketing on Google is important for you.

MR MIENIE: Yes, marketing on Google is important for us, but equally organically ranking on Google is important for us.

10 CHAIRPERSON: No, true and that ... [intervenes]

MR MIENIE: Maybe even more important.

CHAIRPERSON: Alright but, and you probably, I mean also do some brand advertising as well.

MR MIENIE: Yes, yes we do.

CHAIRPERSON: I mean, can I get a sense between staff and marketing you know, what your biggest costs are as a business? I do not want you to give me exact numbers, because it is a confidential session, but I am just looking for kind of orders of magnitude.

20 MR MIENIE: You know, across most vertical business platforms the three main costs are people, marketing and [indistinct – 00:49:55], those are the three biggest costs and depending on the strategy of the business and the way it sees the future, the spend in one of those three categories or the three of them could change, and I will give you an

example.

You can often, you can often supplement the lack of automation and technology with people using operational processes to supplement technology and automation. So I would say, I mean I know it is a classical answer, but the quantum and the magnitude of those three really depend on where the business is.

CHAIRPERSON: Alright, but ... [intervenes]

MR MIENIE: And I am happy to you know, get into the
10 detail of what those numbers are in a confidential session,
so.

CHAIRPERSON: No certainly, and it is a public session, so I think it is more for obviously us and the public to understand these businesses, because that is I think, part of the process of an inquiry is also to educate the public around the online economy.

MR MIENIE: And if I might add, that is one of my passions as well because you know, skill in South Africa is an important thing and I think that it is important that you know,
20 the public learn as much as possible, so you know Autotrader as a business, pushing the boundaries of teaching the industry, teaching the public is something that I am personally passionate about.

CHAIRPERSON: Thanks Mr Mienie, I am glad. So I just want to confirm, I mean marketing is one of your big spends

and so it is not just about user experience, it is obviously you, when the user arrives at your site you want them to have a good experience, that is important, otherwise they will go somewhere else, but getting them there in the first place is also marketing.

MR MIENIE: Yes, however efficiency of the marketing spend will be countered, or should I say judged by whether a user returns or not, so you could end up escalating the marketing spend of a business like ours in infinitum and then
10 that becomes the sole thing that your business spins around, whereas in our business that is not our sole focus. Our focus is to deliver a superior user experience so that when we spend those marketing Rands it works for us in ways that are far beyond that marketing spend, because we do not want to have to spend more than we have to on marketing.

CHAIRPERSON: Ja and that is, I mean my understanding would be you have to get both right, you cannot spend millions to get people to sort of a poor site where they do not stay and do not return, but similarly you know, if 75% of
20 journeys start on Google you have also got to spend on marketing, you cannot just get the user experience right and that was the only thing I was trying to understand.

MR MIENIE: No, no, I think that is a fair assumption, but I think the, you know the trust that you build in the returning visitor, even if it is from Google, is an important thing.

CHAIRPERSON: I mean we had a long discussion with Google as well in the first week and you may or may not have been informed about that, but I suppose what we pointed out to Google is not just about the bid on the one ad, it is your budget that matters, how many searches you appear on rather than necessarily just you know, one on one beating someone else, so budget I mean must matter on Google, I would assume.

MR MIENIE: Paper click has this law diminishing returns, if
10 you overspend you, or should I say for every Rand that you spend you get less and less as you go up that spend, but in saying that, and obviously you know I am not going to mention the actual number here, our spend on Google PPC might not be as high as you might assume, happy to share it with you confidentially.

MR NIEKKELEN: Alright, but I mean budget does impact how frequently you appear in the ad slot, depending on searches, because if I have run out of budget by 08:00 in the morning then I am not going to appear on an advert.

20 MR MIENIE: Ja, I mean if you are running out of budget by 08:00 in the morning then I would question the efficiency of the Google campaign but yes, you know by and large that is true.

CHAIRPERSON: Then I just want to go to your pricing and just what you presented, I mean you have flat monthly fees

in different categories of listings. So yesterday we heard from Property 24 and I suppose I am only associating because it is in the same group and you must obviously meet each other, but they had a different approach, they had a leads approach and I just want to understand what the difference is in cars that you do not have a leads approach.

MR MIENIE: Are you asking me why that is?

CHAIRPERSON: Ja, so I mean you know, I suppose that you know, there is a different I suppose monetization
10 strategy around pricing. You think about these things and you have chosen your current model over a different one because it is better for you and I just want to understand why, because you have also got a little click on the contact number. You could do leads approach, so I just want to understand why you have not chosen that.

MR MIENIE: So I think the reality is really the legacy
20 history of the business, that is one of the main reasons where a subscription business not a click based or a lead based monetization moderation. If you think about the print legacy we would charge for a, we would charge a fee for a dealer for a quarter page, half page, full page, double page in the print days and by and large dealers would take those on a regular basis.

So in monetizing our digital business as we transformed we could not change everything and it made

most sense for us to not, to disrupt less rather than more, so I think it is related more to the legacy of the business rather than to the comparison, you know to Property 24, that is the first thing.

The second thing is you will see that we have moved towards listing type bill, which if you look on the slides that I had up we have got different tranches of listings and we charge different prices for different listings, so if anything the business has you know, moved slightly towards
10 you know, a per listing charge, but by and large is where it is because of its print legacy.

MR NIEKKELEN: Mr Hodge, if I can maybe add one perspective here?

CHAIRPERSON: Please.

MR NIEKKELEN: The way we price our products is not a static thing, it is actually a journey that reflects how far a platform has developed. I think JPS and the Property 24 session also spoke about that.

In an ideal world and a far advanced world we
20 would charge for our products fully in line with the economics for a dealership, meaning in an ideal world we would have sort of a transaction of basis and only if a dealership sells through, initiated through a platform we would price for that.

There are of course realities which refers to legacy,

other realities are the search of the underlying business, sorry, the underlying industry, who is paying, is it a dealership, is it an individual salesperson and all these things that influence, influential factor there is what consumers do. Part of Autotrader's journey at least on a digital side, Cars.co.za I think was sort of standard setting in how they are priced, we were the runner up in the business and of course that has reference points in the agents and dealerships' minds that we are dealing with, so I hope that if
10 we speak in a few years Autotrader's pricing approach as significantly evolved from where it is today, but it is not just up to us and that is actually a slow journey.

CHAIRPERSON: Thanks Mr Niekkelen, that was useful. So almost Cars.co.za set the standard and the expectations amongst dealerships, but as you say it is not static, you could change in future.

MR NIEKKELEN: Ja, maybe that is just strive to really set the standards, but it is obvious if you walk into a dealership that is used to products and is maybe even consuming a
20 product and prices in a certain way, that is the starting point of that conversation, so it definitely has a reference, so that [indistinct] you know ideally we evolve the way our pricing works.

MR MIENIE: Just on that comment, Mr Hodge, Cars.co.za do not set the standard, their pricing and the other

competitors' pricing influences our pricing the way we think about prices, you know. The standard is set by the business and what we can measure and how much value we add to the particular customer and I would love nothing more than to be able to charge when the car is sold, that is the utopia and that is what Sjoerd is referring to.

The trouble with the leaky bucket, as I pointed out in the province, is that we are not there and I think it is something that every vertical business will strive towards.

10 CHAIRPERSON: And I am glad you mentioned the leaky bucket because I thought that may be, you know, part of the reason. It is a little more difficult that people, I think you had 62% might visit your sit, but not contact prior to just arriving and so it is hard to actually track that lead even through that contact, whereas I suppose with property I cannot just pitch up at the house and expect to go and view it, whereas a dealer is a business.

MR MIENIE: Yes.

CHAIRPERSON: So that journey may be slightly different.

20 MR MIENIE: Ja, so I mean you might, what you are saying is our bucket is leakier.

CHAIRPERSON: All of this just helps us understand. The other curious thing I had is why Gauteng is charged differently to inland and coastal and maybe you can enlighten us, because as we have it, I mean if I am a dealer

at the coast I am charged about 40% less and if I am inland, I do not know what inland constitutes, but it is 20% and then Gauteng, as a resident of Gauteng I am just interested.

MR MIENIE: So let me just describe what inland means and it is all areas outside of the main metro pulse, so that could be anywhere in the country, it is not necessarily a particular region. It is just how we have decided to segment the country. Why we ... [intervenes]

CHAIRPERSON: Sorry Mr Mienie, so just to clarify that, so
10 outside of a coastal metro pole if I am still coastal, would that be inland or ... [intervenes]

MR MIENIE: Well, we have got KZN okay, which is Durban and its surrounding areas and then when you move outside of areas like Pietermaritzburg you start to get to the inland sort of territories and then similarly with the Cape, you know you start to move up to Northern Capital estimates, you start to move into inland and then in Gauteng probably just outside of Vanderbijlpark you would start to get into the inland territory, so it is very loosely defined, but that is how
20 we segmented it.

I can get you a more detailed description in a closed session if you like and actually map out the boundaries, but in saying that, what we did years ago and we still do it is we try and compare value to a dealership or to a seller in the different areas that they operate and the

pricing is then, we try and reflect a fair price amongst those particular territories so that the value is relative to the price, so you know Gauteng dealers get a lot more relative value than other dealers in other areas.

CHAIRPERSON: We had this value discussion yesterday, it is a rather cryptic business term. I mean, what do you mean by value here, that Gauteng dealers get more value?

MR MIENIE: Glad you ask that question, because the value definition in Autotrader is how many advert views the particular dealership gets, now you have got to caveat that however with some dealerships will get lower value based on the stock mix and their pricing strategy, so it is a very, very difficult thing to establish, but our definition of value is how many advert views a particular customer gets and that is because it is, because of the leaky bucket. It is also not the perfect value measurement, but it is the best one.

CHAIRPERSON: So just help me understand this, do people at the coast not use Autotrader as much or what is it?

MR MIENIE: No, so I think people at the, first of all there are less people at the coast, so the engagement on the platform is lower and the conversion on the platform then results to a lower number of advert views, which then in turn would result to a lower number of car sales.

So as I said, it is not a perfect science because of that leaky bucket and because the dealership is in control of

so much of the value that they get, we do our best to try and even the playing field.

CHAIRPERSON: I mean, are there not even fewer people inland in rural areas?

MR MIENIE: Yes, so I mean we do not, so Mr Hodge, we do not base it on the population, I am just making the link in terms of why.

CHAIRPERSON: Alright, I cannot pretend I actually understand it any more, but I mean are you saying that
10 people at the coast get fewer leads from you and that is why they pay less?

MR MIENIE: Relatively speaking.

CHAIRPERSON: And inland there is fewer people and fewer cars, they get more leads than at the coast and therefore they pay a little more.

MR MIENIE: Well, that is what our data would show, yes. So as I said, it is not based on population, it is based on the advert views and it is our best estimate in terms of value.

CHAIRPERSON: Alright, I may come back to that once I do
20 get a better appreciation, but you sort of took us through then your listing packages and the different types of add-ons and you have got a 20 vehicle category, I see there is 1 to 20, 60 vehicles that is up to 60, 120 and then you have got a 350 vehicle category. I understood that used to be 250, it changed.

MR MIENIE: Yes, so that is now 350 vehicles in terms of the rate, we did change it.

CHAIRPERSON: And what was the reason for the change?

MR MIENIE: So the dealerships that fitted into the cusp over, you know over 250 or slightly over 250 made it really difficult, so we had to cap rate the boundary on the upper end so that we could have dealerships fall into that category of under 350 vehicles, so we just, there was too many nuances over that cusp.

10 CHAIRPERSON: Alright and so obviously if we look at that, I mean there is quite a lot of differentiation, but from our quick calculations, I mean for a 20 car dealership you are basically paying just shy of R310 per vehicle and for 300 vehicles just shy of R69 and that is a four times difference.

MR MIENIE: Ja, I mean I think that is an accurate assessment, if that is the stock volume of the dealership.

CHAIRPERSON: Ja, obviously if they have five cars then they are paying probably closer to I do not know, R1 200, R1 300 per car.

20 MR MIENIE: That is if they have five cars and the majority of dealers who have five and less cars, which is a very small number in and of itself, are actually part of big groups.

CHAIRPERSON: Are these dealers that list with you that are small in number?

MR MIENIE: Yes, so that is from our own data, yes.

CHAIRPERSON: I mean, do you not think that is surprising if I am paying R1 200 per car that a few people would come and list with you?

MR MIENIE: So I mean, that is by and large not the biggest part of the business model of a dealership to have under five cars, you know you will see the drop-off in price per listing goes down significantly as you go, you know from three, four, five cars and onwards, the cost per listing drops significantly as you have pointed out, but that being said,
10 based on our calculations a little bit earlier on you know, even at R1 000, which is not what we by and large bill, the cost of advertising is not significant in relation to the profits that a dealer makes on a car. They have to really sell one more car to more than make up for their advertising spend.

CHAIRPERSON: Ja, and we heard that yesterday from Property 24 as well, but I just want to understand, sorry Mr Mienie, I mean in effect the profit on the car must be less for a small dealer than a large dealer, because they are paying a lot more for advertising on your platform per
20 vehicle.

MR MIENIE: That is correct. So what I would like to do in this particular question, if you do not mind is, and I cannot seem to get onto Autotrader here, but if you go onto the face of or the front of our site and go onto the search results page and I do not know if somebody can just share that, that

would be useful if you do not mind.

CHAIRPERSON: Sorry Mr Mienie, what is the purpose of this?

MR MIENIE: I just want to show you what option a dealership has. So if you go onto the search results page and you go down to the seller type there is seller type which is private, ja there, private business, private individual trade, verified private vehicles. The private business category is a.... You can stop sharing the screen, thank you.

10 The private business category is a category of product that starts at R549 per vehicle and dealerships with low stock volumes are more than welcome to take that product.

CHAIRPERSON: So that is R550, which is ja, still not as good as even R310 if you had 20 vehicles.

MR MIENIE: Ja, so you know, so if you are asking me to comment on that and the reasons why is the incentivisation as I pointed out right at the beginning of the presentation in terms of attracting users, we need to stimulate stock volume
20 on Autotrader and our pricing structure by and large does that.

CHAIRPERSON: I mean I am going to come to that, but I just want to ask you know, we have got Cars.co.za coming later, but they introduced a category for five cars, so they clearly see that there is something there, out there in that

category, so as I said I think it may be you are not seeing them because of your pricing, but I wanted to ask above 350, you talked about the large groups, so I mean tell us about pricing for those with more than 350.

MR MIENIE: Sure. So first of all let me point out that that five car package of Cars.co.za is R2 000 a month for five cars, which sorry, it is ja R2 032 for five cars, so way, way above you know, the thresholds that we are speaking about.

So getting to the other part of your question, which
10 is for large groups, so what we have gone with large groups is we have moved the business further towards what Sjoerd and I were speaking about a little bit earlier on and that is you know, closer to that price that gets us to where the car transaction happens and the way to get there is to charge per listing initially, so we have moved all of the large groups to a price per listing.

CHAIRPERSON: And just to compare to our R310, what are the kind of numbers we are talking here per listing?

MR MIENIE: If you would not mind Mr Hodge, those are
20 confidential agreements with those dealer groups, so I am happy to share with you.

CHAIRPERSON: I do not need an individual dealer group, I just want a ballpark.

MR MIENIE: I am going to get myself into confidential trouble here, but it is, the gap is not as big as you might

think.

CHAIRPERSON: Well, they have got to be better than R69 per car, because that is what you give the 350 dealer.

MR MIENIE: No, they certainly do not do better than R69 per car.

CHAIRPERSON: They do not?

MR MIENIE: No.

CHAIRPERSON: Because the 350 vehicle dealer is paying R69 for a listing, so if I had a thousand vehicles you are
10 going to say I do not do better than that, surely that does not make sense.

MR MIENIE: I mean, the rate card is what you have seen and different dealers take different products and packages and it is not necessarily purely that a dealership would take that product at R69 a car. We have more than likely sold them other products as well.

CHAIRPERSON: Ja, I am going to come to the other products, but I just want to understand that listing. You are not going to give me a price point for bigger groups.

20 MR MIENIE: Not in this session unfortunately, Mr Hodge, I would prefer to keep it confidential.

CHAIRPERSON: No, I am sure you would prefer and I am sure you can exert that, I just find it disappointing. I mean, we have had this continually throughout the hearing that quite frankly you know, we know the prices must be much

better and quite frankly the public should be aware of that, so if it is not much better, why are you not willing to tell us?

MR MIENIE: Because it is confidential agreements with those dealer groups and I can show you in a private session that it is not better.

CHAIRPERSON: Ja, that is not going to help the public and it is not going to help the smaller dealer to pay R310 to know what his rival across the road is paying to advertise on Autotrader and that is the point of transparency, is
10 transparency brings fairness, because you have to explain it to the smaller dealer why they are paying R310 and the big Barlow World across the road is paying a lot less than R69 and they are selling a car and they are going to have the same costs, except the advertising of course.

MR MIENIE: I do not want to leave the perception that Barlow World is paying R69, because they are not and I also do not want to leave the perception that we are not willing to disclose the information, because we are and it is certainly not as low as you may think.

20 CHAIRPERSON: Thanks, Mr Mienie. I mean, you are not willing to tell it to the public, obviously you can tell us and bind us to confidentiality, but I think the public deserves to know, but let me move on. You know, you say volume, now this is something thrown around all the time, it is volume.

I mean what has astounded me in the last two days

is it is not the 5 to 10% we sometimes see in retail, I mean we started preparing guidelines for price discrimination where we had a 5% price difference as a threshold, this is four times, that is a 400% difference. I mean, we have never seen these sort of differences and how does volume justify that extensive difference?

MR MIENIE: Mr Hodge, I think you are using the R69 as the *de facto* kind of price point, which is not the case. What we can share with you is the average price per listing that every
10 dealer in the country pays and you will see that it is not R65 and so the differential is not that big. You can look at the rate card and do that math, but in reality that is not the case.

CHAIRPERSON: And ja, we are doing the rate car and we are doing the maths and I am sure if I had 330 vehicles I am paying slightly more because I have, you know it is a flat fee, but the extent of difference is not going to change dramatically. I just want to come back to ... [intervenes]

MR NIEKKELEN: If I can just add one relevant talking point here, is that by taking this view here that you are presenting
20 are you comparing again the cost per listing ... [intervenes]

FEMALE SPEAKER: Sorry to interrupt, we just lost sound here on our side, so if you could maybe just give us a minute.

CHAIRPERSON: Sorry, I do not know who that is.

MR MIENIE: No, sorry about that, Mr Hodge. My WiFi

dropped for some reason, I did not get anything that you said.

CHAIRPERSON: Well Mr Niekkelen, you heard. Do you want to proceed?

MR NIEKKELEN: Yes please. I just wanted to add one perspective here, sorry to perspectives. One is continuously focusing on the price per listing, you might actually miss out that price per lead as the closest proxy to value, a differential that you have rightfully observed might not be as significant, and second I think some of these larger groups, if I follow your line of reasoning they would see exceptional value, but I think the reality of today is that many of them are not advertised on our platforms or have recently left our platforms, so that is I think an indication that from a dealership perspective, large or small, the concept of cost per listing is not necessarily how they will evaluate our platform.

CHAIRPERSON: Sorry Mr Mienie, I think if you are typing we can hear that.

20 MR MIENIE: Sorry about that.

CHAIRPERSON: If you will just mute. I mean, if this is such a small cost in the overall money made, I mean do people not bring their listings anyway? I mean, if you are rewarding bring your listings then the 20 car dealership who only has 20 cars brings all their listings, I mean why do they

still see a poor price if that is what you are trying to do?

MR MIENIE: Well, I mean it is... Sorry, go for it, Sjoerd.

MR NIEKKELEN: No, I think you are much more in a better position to answer it, but obviously a dealership looks at a portfolio of advertising platforms and also makes a relative return calculation, so it is not as if a dealership does not, decides to not advertise, he might decide that for his or her situation marketing investments has got a higher return elsewhere.

10 CHAIRPERSON: I suppose the reality of auto dealership today is online is the most important probably marketing channel and if you are big you get to negotiate and you get a good rate that offers you value, but if you are small you do not negotiate because you are told what the rate card is and you pay four times, that seems to be what we are sitting with in auto, but you mentioned Mr Mienie, that that is not the only thing people pay for, so I want to come to your other elements.

20 Now when I come onto an Autotrader search and maybe I am being directed from Google my default is the default ranking, is it not? It is not cheapest to, and as I understand you have that because you are selling visibility, that is the premium listing, the featured listing, well I suppose those are two of the most that appear at the top.

MR MIENIE: Ja, so it is standard on top of that premium,

the listing right at the top featured in the middle of those listings, either in standard or in premium, it is irrelevant, is feature dealer, so that is kind of loosely the search page.

CHAIRPERSON: And as I sort of see from your site the featured listing is sort of free and there is fewer pictures. The premium listing is the big one with lots of pictures, is that right? And then obviously you have got the add-ons like branding, stand out where stand outs more pictures as well and dealer branding is your logo.

10 MR MIENIE: Yes.

CHAIRPERSON: I mean, maybe with just picking up some of these the stand out, you said the minority of users, I assume you meant dealers.

MR MIENIE: Yes. Sorry, if I said users I meant business users.

CHAIRPERSON: I mean, what about listings? Because there is a difference between a group with a thousand listings and a small dealer with five, so I mean is it still a minority of actual listings?

20 MR MIENIE: Yes, it would be by definition, because 80% of the market is independent.

CHAIRPERSON: Ja but you know, I have five and the 20% dealerships probably have the vast majority of that to listings.

MR MIENIE: They have only got 20% of the listings, or

less. When I talk about the 80/20 I talk about listings, I do not talk about dealerships.

CHAIRPERSON: So you are telling me that stand out is what, well you tell me, what percent of your listings are stand out?

MR MIENIE: I am going to claim confidentiality, but it is under 50%, Mr Hodge.

CHAIRPERSON: Alright, just under 50 or is it, where does it lie in that range?

10 MR MIENIE: I would prefer to go to, you know a confidential session on this, if you do not mind.

CHAIRPERSON: Alright, but it is not under 10%?

MR MIENIE: There is one product in that list that is under 10% and, or should I say just over 10% and that is a featured listing I think, so let me just get there if you do not mind.

CHAIRPERSON: Ja, I mean I got the sense too that that is not the most popular.

20 MR MIENIE: Featured dealer, my bad, featured dealer. The featured listing is not much higher than that, so if that gives you a flavour, but I would prefer not to talk to these actual masks respectfully submit.

CHAIRPERSON: Alright, but I mean I think your answer gives us a sense, it is not under 10, it is under 50, so it may be a minority of business users, but it is a much bigger

portion of actual listings and I assume that is because the bigger groups take this product as part of a package, is that right?

MR MIENIE: Not always, so not all dealer groups are on premium.

CHAIRPERSON: No, I mean I am not asking if all of them are, I am just asking if that bigger groups, you get better pricing are more likely to get onto this package, because we have got to ... [intervenes]

10 MR MIENIE: As a matter of fact not, Mr Hodge. We actually, our sales teams have to do an even more difficult job to convince a dealer group of the value of premium listings versus a dealership and it goes back down to you know, the competitive nature of the dealerships themselves. The dealer group has the luxury of volume, which means that they do not necessarily have to take premium listings.

CHAIRPERSON: I suppose Mr Mienie, all I put to you is that if it is a minority of users, but a far more substantial share of actual listings then the, it must be bigger groups, it
20 does not have to be the biggest group, or those with more listings that tend to get this, because it follows on the maths.

MR MIENIE: So it is not true, the listings are not dominated by dealer groups in terms of premium.

CHAIRPERSON: Mr Mienie, I put it to you it follows logically. You can deny it, it is fine. Let us just go to dealer

branding. I mean, this apparently delivers up to 40% more consumer advert views according to your promotional pamphlets and your slide deck, so this is one of the also better products in a sense, if it delivers 40% more.

MR MIENIE: Sorry Mr Hodge, you broke up there, but I am assuming you are talking about ... [intervenes]

CHAIRPERSON: I was talking about dealer branding yes, and I was just saying that this apparently delivers 40% more consumer advert use.

10 MR MIENIE: Yes. So our maths has gotten that number out of dealer branding.

CHAIRPERSON: I mean, when I search your site I tend to see a lot of dealer branding, I cannot say, even this morning I saw anyone without, I mean is this also popular? Because you get 40% more views.

MR MIENIE: Yes, it is. It is as popular as premium.

CHAIRPERSON: I mean, is this more than 50% or is this under 50%?

MR MIENIE: 50.

20 CHAIRPERSON: Sorry, I think you broke up there.

MR MIENIE: It is under 50.

CHAIRPERSON: I suppose the other thing we noticed with all of these products is again the four times difference that applies to the standard listing, so it is similarly differentiated by the number of cars you have for sale. I presume if I am a

large group I also have a sort of personal negotiation with you to see what value you can provide me.

MR MIENIE: So we do have discussions with dealer groups around price per listing and that is the way we price the dealer group in the business. I am not sure if that is the question or are you asking me to confirm?

CHAIRPERSON: Ja, I am just asking you to confirm that you would negotiate with them, because they are not on the rate card, so they have a negotiable rate and I presume they
10 would want to do better than the rate card.

MR MIENIE: Yes and no, it depends on the need of that dealer group, you know the stock mix they carry.

CHAIRPERSON: Sorry Mr Mienie, I am just going to interrupt you. It is not yes or no whether you take branded listing, I mean I can understand that, but presumably if I have a thousand cars I would want to do better than the 350 when I come for a negotiation, that is all I want an answer to.

MR MIENIE: Mr Hodge, if you are referring to the R65 the
20 answer is no.

CHAIRPERSON: With branded listing it is not R65, it is R14, but that is all I wanted to ask, I mean I would find it amazing in your volume based approach that if I had a thousand vehicles I would do worse than someone with 350, that does not, you know that is turning it on its head.

MR NIEKKELEN: Mr Hodge, if I may add one minor point here? Your frequent references to the observed differentiation in pricing I think it is undeniably there, however it is very important to understand that yesterday and today we were talking about classifieds differences.

You just made a reference to pricing differential and eCommerce being smaller and the fundamental reason for that is that the additional value that a new listing brings in the market of classifieds, so let us say in the market of new,
10 sorry used goods is much higher to that network than an additional let us say SKU in an eCommerce market base offering, so that is why you will observe and that is why there is a strong logic for these price differentials to be different because of this quite difference of industries, because the additional value that an additional listing brings to the entirety of a classifieds platform is significantly higher than an additional product brings with a deep SKU level or whatever, multiple elements of that product available like in an eCommerce setting. I just wanted to point that out that
20 there is sort of a logic based on the types of goods that are being traded on these platforms.

CHAIRPERSON: Thank you, Mr Niekkelen and I am sure I will take that up with Mr Reed on that, but I think as you pointed out there is no difference in pricing on eCommerce, there is no difference in pricing on travel accommodation. I

mean, from what I can see on travel accommodation you know, there is sort of, I do not know, 25 000 places, so fewer than the cars you have got for sale, but a hotel group that brings more bedrooms does not get a better rate, but I think ... [intervenes]

MR NIEKKELEN: My suggestion...[intervenes]

CHAIRPERSON: Ja, I mean I ... [intervenes]

MR NIEKKELEN: My suggestion was that the additional value an additional listing brings is different across these
10 different types of platforms and much higher in the case of classifieds and used goods.

CHAIRPERSON: And I suppose Mr Niekkelen, the point I made earlier, if this is so cheap compared to the revenue you get from selling a car, I mean we heard 45 000, it is so cheap you know, those listings will come anyway, but the reality is if I am big I get to negotiate and if I am small I do not, and the kind of differences we are seeing here I do not think you can justify on your value based model, I will be frank. I mean, it is astounding, four times and probably
20 greater where you got into the public domain what the big groups pay, I mean that is phenomenally different.

MR MIENIE: So you know, without breaching confidentiality Mr Hodge, there are some dealer groups that are paying north of R500 a listing.

CHAIRPERSON: All right Mr Mienie, and they may be

buying all your other sort of premium listings and branded listings along the journey, but I just want to come back to that which is premium listing seems to be your crown jewel, because on what you say it is four times more consumer adverts and not a 40% or 20%, this is four times more, that is that really nice spot, is it not?

MR MIENIE: Well, it is the chunk of listings on top of standard, yes.

CHAIRPERSON: So I assume this is also in your popular
10 category.

MR MIENIE: Yes, but it also does not breach 50%.

CHAIRPERSON: But also in the four times difference pricing and those with groups get to negotiate.

MR MIENIE: Yes, you will notice on the rate card however that premium listing is double the price of standard listings.

CHAIRPERSON: No, I noticed that it was, as you say it is the same as almost, you added on top another, the same amount.

MR MIENIE: Yes, yes. So the same logic would follow in a
20 group negotiation.

CHAIRPERSON: So I just want to come back to this, I mean obviously promoting your ranking if you are premium or if you are, so I mean we have got featured and premium, we have got the stand out and branding which also adds, but on your mathematics they are more likely to get more views,

presumably that results in more leads and more value for the customer and that is why they buy them.

MR MIENIE: That is correct.

CHAIRPERSON: I mean I do not, I mean as I understand you know, maybe this is the Google effect that, but certainly a minority of consumers would flip to the second page or the third page, or is it that they refine their search?

MR MIENIE: The latter, so the refinement is a big consideration, almost like the consumer going back to
10 Google and increasing the text string in their search.

CHAIRPERSON: Alright, I mean maybe just to finish up on this, do we not have a compounding of the problem that we identified with standard listing? I mean, you charge a lot more for a small dealer on a standard listing, they are also discriminated against on all the advertising, which does affect the consumer choice and does generate leads and so if they are to pursue that you know, they are going to in effect again have to pay substantially more, which means it is probably less value for them, which probably means that
20 fewer of them are actually going to be affording the advertising, which is so critical on your platform as well.

MR MIENIE: I do not think that is the case, Mr Hodge and the reason is because the advertising cost, even with all our products is, and I will point out again that a dealer more than covers their advertising cost by selling one more car, so the

economics around profitability versus our costs to a dealership is small.

Dealerships have much bigger costs in their cost base than Autotrader, so I think that is the first thing and then in terms of getting value, because the used cars are very unique, they are not commoditised products on Autotrader, the user, and it s one of the reasons the user filters as much as they do, the users filter to extreme amounts and that is because of the uniqueness of the used
10 car. They will find what they are looking for.

It does not mean the product does not work, it does and it does give more value on the premium package to the standard package, but a dealer does get a significant amount of value, even on the standard package.

CHAIRPERSON: I mean all I am putting to you is you are the leading portal, as I understand in auto, a lot of consumers look for cars online, so a lot of the leads are coming this way. You are charging them substantially different, so whatever their economics for the dealer is, the
20 small dealer is materially worse off, because they are paying four times more for advertising on your site as a standard listing and that may leave them with less money to actually promote on your site, which seems quite important and which appears to be used I would say a lot more by large dealerships because you have less than 50% of listings, but

a minority of dealers.

So I mean, I am just trying to understand how this is not exclusionary. You have got to be on your site, you have got to advertise and you are charging someone so much more, I just do not understand why this is not a problem.

MR MIENIE: So you know, dealerships have alternatives, they have got Cars.co.za, they have many other alternatives, they do not have to be on Autotrader, they choose to be on Autotrader and the price difference is based on you know,
10 volume discounting and it does not seem to be prohibitive to them advertising, which then tells me that they are free to choose, they are not forced.

CHAIRPERSON: I mean, the Market Inquiry I think as I explained yesterday is not just about dominance, it is about the market and the features and obviously we have Car Find next and Cars.co.za in the afternoon, I am not saying they are any better, but it may be a market feature that has the effect of discriminating quite severely against small business and I think as you indicated in this case it might also as a
20 result be severely discriminating against historically disadvantaged individuals.

I mean I think we heard in property, and it is probably the same in auto dealerships, certainly from what we have seen, that because people were discriminated against and excluded from the sort of economic activity they

are more likely to be a new entrant, a small entrant trying to build, non established one and I think as that one agent through, well I read to Mr Fourie and sort of put quite well is you know, without the capital, the benefits of privilege, historic and current, so this, if there are benefits to the digital economy, benefits from being more efficient in advertising, reaching more consumers, finding more buyers that might you know, give a better price for a vehicle because you are reaching people who want it, then those
10 benefits are going to be denied and it is a question of fairness, you know.

It is not whether we, a person is going to earn slightly more than they are, you know going to make a commission on this, it is about the fairness of why should someone who is so big pay so much less. I mean, does this not completely entrench the structure of the economy? I mean, a big dealer gets lower cost on everything, can make more profit as benefits of privilege and then can expand as a result and the small dealer, every bit of value is sucked out,
20 so you know that is what I am putting to you. It is not about whether that dealer makes it worthwhile on Autotrader or not.

MR MIENIE: You know, I do not think, I mean from my perspective I do not think that you know, leveraging those economies are discriminatory for a big dealer group and our

pricing is purely based on getting all the listings onto the platform.

CHAIRPERSON: I have just got a couple of more questions, Mr Mienie, I mean when you go and do a deal with a large group, I mean do they sign up for a period of time? Sorry, I think we have Car Find who has joined us virtually, maybe you want to just put off your camera while we finish up with Autotrader. Thank you.

MR NIEKKELEN: Maybe before you answer George Mienie,
10 just to take one second on this point, in the end of the day it is also to the platform and to our benefit to have as much content on the platform as possible and I think George pointed that out earlier, JP pointed it out yesterday that that is the fundamental, the fundamentals of classifieds, the fundamental of used goods marketplaces.

So will we invest and will we aim to have everyone onboard going forward? Yes. Have we been investing in that? Yes, but I think it is dangerous to take, to harp on the four X number that you mentioned here, as I mentioned you
20 should take a more balanced view here in terms of value delivery. There is tons of examples of large groups that are not seeing the benefits in our platform, there is tons of examples of smaller dealerships that are on our platform, so this is not a static assessment of it is only good for at the top and for the large ones and not the small ones.

We will every day go to work and try to get everybody on the platform and I think the bigger point taken here is that yes, the current product and pricing structure needs to evolve to make it more attractive, that is to our benefit and to the market's benefit, so we will and I think there are examples in the market, including our colleagues that just joined, that have managed to build products more of these smaller dealerships and I think as a matter of competition we will also pursue those leaderships to be on
10 the platform.

CHAIRPERSON: Ja, I do not think with this pricing structure and the question of fairness Mr Niekkelen, is if you can bring someone on that R69, why are you charging someone else R310? You know, that is the economics of it as well and you are charging them because they are small, they need to be on your platform and so you found that pain point that you can apply and that seems to be the reality.

MR NIEKKELEN: I will let George you know, answer the initial question, but unfortunately not everybody believes
20 that they need to be on our platform, as evidenced, and you know as a more of a reconciliatory remark yes, our pricing structure needs work. As I mentioned, this is a continuously evolving part and I think it needs to be better for smaller dealerships.

CHAIRPERSON: And for transformation, I mean George

spoke to earlier the need for this industry to transform, I mean we are now 27 years into democracy and we are just reinforcing the same model and privilege, big players get bigger prices, they get to grow because they make more profit, they are priced lower because they get better prices, so they can get more sales, I mean it is just a vicious cycle basically and structure cannot change with this extent of discrimination, it just cannot and it is not quite frankly fair, you know.

10 You have had many challenges as a small business. We know there is high exit rates, but to lump this on top just is one more hurdle. So we look forward to, Mr Niekkelen, engaging on how your pricing has changed, but I just had the last two questions that I wanted an answer for, which was if I go do a deal with a big group, I mean is this for a period of time that you lock it in with them or is this you know, for a year or what is it?

MR MIENIE: No, so all dealerships are free to leave with 30 days' notices, including their groups.

20 CHAIRPERSON: But do they sign a one year deal with the ability to leave on 30 days?

MR MIENIE: No, they do not sign a one year agreement, they sign an evergreen contract.

CHAIRPERSON: And in that then for the big groups how does the price change? Because there is no rate card that

you put through, do you renegotiate every year or do you have a ... [intervenes]

MR MIENIE: Yes, we send them notice of price increases and they are free to cancel, should they not want to take up that price increase. It is built into the contract itself that we will be increasing our prices.

CHAIRPERSON: Alright, I just want to check with the team whether there is anything else. Mr Mienie and Mr Niekkelen, I do not think there is... Sorry. Sorry, I was just checking
10 with the technical team. I think that is it from the panel and the technical team. I want to thank you for coming to the public hearing and thank you for putting in the effort to put together the presentation and to engage the panel and I am sure we will have those in camera sessions, Mr Mienie, you know in the new year and ... [intervenes]

MR MIENIE: If I may, Mr Hodge, I would just like to you know, thank my team in preparing for this, worked tireless hours and to try and get the content that you see done and as well as helping answer all the questions that the
20 Commission has, so we will continue to do that and thank you for your time.

CHAIRPERSON: Yes, and I should thank you, we have asked a lot of some of the players and I appreciate that your team has put together information and responded timeously. Hopefully we will have less to ask going forward, but I am

sure there will be some few things that we still need, so we appreciate the ongoing cooperation, it is very, very much appreciated and Mr Niekkelen, also for your time as the General Manager for the OLX Group to join these two sessions. I know your time is valuable, so thank you for that.

MR NIEKKELEN: No problem. We are looking forward to take this forward.

CHAIRPERSON: Thank you, gentlemen. You can leave. I
10 am going to ask the indulgence of Car Find for a five minute
break, if we can, before resuming. It has been a few hours
and I think we just need a quick five minute break, if that is
fine.

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