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RE: REGULATOR ENGAGEMENT WITH SMALL BUSINESS

EXECUTIVE SUMMARY

All small businesses face some level of regulation and compliance burden. It is a fact of life and an element towards the maintenance of a civil society that there be 'rules'. Retail motor traders accept that reality; in some instances with a readiness exceeding that of the norm. Indeed, most of AMIF's Member Bodies have, as a condition of their membership, Codes of Conduct that must be upheld and that insist that members act with integrity and honesty.

AMIF would suggest that reasonable rules are 'fair enough.' But, it seems to AMIF as if there has been a trend within recent regulatory development for the concept of 'fair enough' to be discarded. It is worth the Commission noting that the examples provided within this submission are not the full extent of occasions from which AMIF has been able to identify what seems to be an almost overarching philosophy representing a blanket approach to regulation.

AMIF considers there to be a range of efficiencies that might be gained, either immediately or in the future, through the adoption of a 'smarter' approach to regulatory development and compliance.

AMIF suggests the establishment of an Office of Policy Coordination within the Office of the Small Business Commissioner. That Office is proposed to act as a clearing house for regulatory development across the Australian Federation structure, as well as ensuring limited duplication of efforts in specific regulatory areas.

AMIF suggests that government be more prepared to work in partnership with industry sectors to achieve desired policy outcomes. AMIF would contend that there are efficiencies to be obtained if policy and regulation developers would approach bodies such as AMIF when proposals are still nascent rather than advanced.

AMIF also suggests there to be efficiencies gained from adopting a targeted, rather than 'tar-brush', approach to many issues in potential need for regulation.

THE AUSTRALIAN MOTOR INDUSTRY FEDERATION

This submission has been prepared for the consideration of the Productivity Commission by the Australian Motor Industry Federation (AMIF). AMIF is a federation of the various state and territory motor trades associations and automobile chambers of commerce. Through its Member Bodies, AMIF represents the interests of over 100,000 retail motor trades businesses employing over 308,000 people. Those businesses have an aggregated annual turnover typically in excess of \$162 billion, which, in combination with the industry's scope and size, makes the retail motor trades the largest small business sector of the Australian economy.

The retail motor traders represented by AMIF can be found throughout more than 35 distinct trade-based sectors. Those sectors cover all aspects of the motor vehicle's presence within Australian society, from the sale of new vehicles, to that vehicle's servicing, maintenance and repair, its tyre, fuel and lubricant needs, its repair following collisions, and so on, right through to, and including, its decommissioning at its end of life. Each of these sectors can have its own unique characteristics and, as a result, their own unique regulatory and compliance frameworks.

AMIF's assessment of the recent Discussion Paper released by the Commission – *Regulator Engagement with Small Business* – is that it seeks to elicit and obtain insights into the manner in which regulation burdens small business at the 'operational' level. Something of a central focus, or fulcrum, to that activity is consideration and determination of just what constitutes a small business. This submission seeks to offer some insights that AMIF has gleaned from its perspective of advocating in the interests of retail motor traders in the regulatory development sphere. To do this, AMIF has provided the Commission with recent examples of its engagement as a stakeholder in policy development exercises. AMIF also hopes to explain to the Commission why, as far as the retail motor trades are concerned at least, there is likely no simple definition of what constitutes a small business.

DEFINING 'SMALL BUSINESS' IN THE RETAIL MOTOR TRADES

To focus first on the fulcrum issue within the Discussion Paper, being what the term 'small business' means, or how it might be defined. Applying simple mathematics to the retail motor trades suggests that the average business within them employs approximately 3 people and has an annual turnover in the region of \$1.6 million. It would not be at all inaccurate to say that there are retail motor trades businesses that would fit that descriptor reasonably well. As against that, it would also be completely inaccurate to say that such a descriptor represents the norm, or the majority, of retail motor trade businesses. Further to that, there are characteristics specific to some sectors within the trades which, when taken into consideration, have the potential to render metrics such as 'annual turnover' essentially meaningless (particularly in a comparative sense) as an indicator of a business's size.

For example, an average-sized, metropolitan new motor vehicle dealership will, in all likelihood, have the following characteristics¹:

- it will be owned by an individual, or a small number of individuals from the same family;
- it will be the owners that manage the business;

¹ As derived from Lattimore et al (1998) cited at page 2 of the Discussion Paper.

- any management structures will be constructed around the four major dealership profit centres²;
- it will mostly operate in only one location and sell within its manufacturer-defined PMA³;
- compared to its supplier, it will be disadvantaged in terms of power relationship in the market.

Yet, it will likely also have the following characteristics:

- it will employ as many as 80 people;
- it will have a stock holding representing a monetary value in the order of \$10 million;
- It will only break even on 25 days out of every 30;
- it will have a annual turnover in the region of \$90 million; and,
- it will enjoy a profit before tax in the order of 1.5 percent.

As can be seen, one set of characteristics suggests an 'average' dealership to be a small business. Another set of characteristics, however, tends to suggest the converse when comparisons are made with other retail activities. But, it is when the last dot point in the second set of characteristics is given recognition that the flaw in the comparative analysis is revealed. The margins within the business of new vehicle sales are miniscule when compared to other, 'generic' retail activity.

This last aspect continues to hold true even when dealerships are considered in larger aggregations (there are dealer groups that comprise as many as 150 vehicle outlets). It cannot be disputed that larger dealership groups are big concerns from an employee number and turnover perspective. But, even so, many remain essentially family or individual owned and, at best, enjoy profit before tax in the region of 2.5 percent (afforded only through economies of scale). They exist in reality, then, as simply large-scale small businesses.

It needs to be remembered, too, that motor vehicle dealerships are franchised businesses. They are not Ford, or General Motors, or Volkswagen or Toyota and so on. They are Fred Smith trading as Downtown Ford; Harry Jones trading as City Holden; Larry Smith (Fred's brother) trading as Smith's Toyota and so on.

Irrespective of the size of the dealership, it can be seen that, by their very nature, they distort any averages that might be considered reasonable after a first-instance evaluation of the retail motor trades. Especially when it is recognised that dealerships make up around 4 percent of all retail motor trades businesses, yet employ as many as 10 percent of the retail motor trades workforce.

The business of fuel retailing is another example of a high turnover, low margin operation within the retail motor trades. In this sector, though, staff numbers might only be in the single digits or, at the most, low double digits. But this will provide no indication of business turnover, with busier sites turnover running into the tens of millions of dollars a year. Again, however, the margins are in a similar order of magnitude as that enjoyed in vehicle sales. AMIF is aware, for example, of one fuel retailing outlet that annually makes more profit – in actual monetary quantum terms – from the sale of a certain soft drink than it does from its sales of fuel (and it sells a *lot* of fuel).

² The four centres being; new vehicle sales; used vehicle sales; finance and insurance; and, service and parts.

³ Prime Market Area (PMA) is a designated 'territory' allocated to a franchisee. It is, however, becoming more common for dealers to have more than one outlet and more than one franchise as a mechanism for spreading risk.

A decisive majority of retail motor trades businesses are, though, small businesses by any definition. Many are one or two person operations eking out a modest return on, what can be, a disproportionate investment (especially in a capital equipment context). For that majority, any reasonable definition of the term 'small business' will most probably fit easily. But, there remains the other sectors -- new vehicle dealerships, farm machinery dealerships, motorcycle dealerships, fuel retailers, franchised tyre and service operations – that comprise a not insignificant (and largely statistical) minority within the trades, for whom any definition risks harbouring negative impact upon them.

AMIF would urge the Commission, therefore, to exercise a degree of caution and, indeed, possibly hesitation, around efforts to explicitly define 'small business' as it might apply within the retail motor trades.

PRECISE TARGETING, TAR BRUSH, OR ILL-DEFINED INSTRUMENTS?

AMIF would make the observation and comment that there are a number of examples of regulation – proposed and / or in effect – that impact unnecessarily upon the retail motor trades. That is to say that a policy issue has arisen and been identified by government and that, among the various responses that could have been chosen to address that issue, a response path has been adopted that unwittingly (or unfairly / arbitrarily / deliberately) draws the retail motor trades (and other 'innocent bystander' businesses) into its purview. The case studies provided below seek to illustrate some examples of this phenomenon.

Fuel Price Boards for everyone!

At the 6 July 2012 meeting of the Legislative and Governance Forum on Consumer Affairs (CAF), Ministers responsible for consumer affairs discussed fuel-price-board signage and agreed to explore a consistent national approach to the display of information on fuel price boards.

This was in response to concerns raised by a number of Australian motorists (via complaints data and consumer surveys), and expressed by Australian Consumer Law Ministers and regulators, about the display of price information on fuel price boards. One area of predominant concern related to how the discounted price for fuel (that is, primarily, the price fuel would be discounted to upon the presentation and redemption, at point of sale, of a 'shopper docket') can be more prominently displayed than the undiscounted price. Other concerns – which, in aggregation, fail to represent a majority – included the display of only one or two fuel prices, the lack of visibility of some boards, consistency of display between various retailers and differences between displayed price and that 'at the pump'.

As a result of CAFs considerations, Consumer Affairs Australia and New Zealand (CAANZ: that is, the senior officials responsible for consumer policy and enforcement in Australia and New Zealand), developed and promulgated a discussion paper / consultation Regulation Impact Statement (RIS), which sought the views of stakeholders on options for developing a national approach to fuel price boards. Three options were put to stakeholders in the consultation RIS. Those options were:

1. No new regulation – relying on current laws, industry-led efforts and market incentives;

2. Basic national standard – ensuring only undiscounted prices can appear on fuel price boards, while allowing information about the availability of a discount scheme to be also displayed;
3. Detailed national standard – prescribing what information and how that information needed to be displayed on fuel price boards, including prescribing that only undiscounted prices can appear, while allowing information about the availability of a discount scheme to be also displayed.

AMIF's position on this issue -- advocating for essentially no new regulation or, at the most, an extremely minimalist approach -- was based on a simple, pragmatic, reality. That reality being that the overwhelming source of complaint in this regard laid in the behaviour of two particular, dominant, players in the fuel retail market. AMIF asserted that the behaviour in question could be argued to be false and misleading conduct as canvassed by the operation of the *Competition and Consumer Act* (Cth) 2010, as well as the Clarity in Pricing⁴ provisions contained therein.

The behaviour of two individual entities being the essential issue, and with government already ostensibly having the power to stop (or severely discourage) the behaviour, why was there any need to make *every* fuel retailer responsible? Representations to the contrary – a detailed national standard is fully supported in some quarters: mainly the transgressors in this example – seem to AMIF to be akin to punishment for all for the transgressions of the two. AMIF awaits the outcome of CAANZ's efforts in this regard.

Couldn't care less.

It would be something of an irony if the Clarity in Pricing provisions were ultimately utilised as a response to the issue described in the above example. AMIF's predecessor organisation – the Motor Trades Association of Australia – was a significant stakeholder in the development of the Clarity in Pricing Amendments to the *Trade Practices Act* (Cth) 1974. Once again, the Federation and its Members were vigorously opposed to those amendments. The reasons for that opposition were, as ever, based in a practical reality.

The Clarity in Pricing laws came about as a response to the then market behaviour of a number of airline and telecommunications companies. It would be fair to summarise that behaviour as representing what amounted to 'bait and switch' advertising. That is, a implausibly low, bargain, price is advertised for a product or service and it is only upon purchase or entering into a contractual obligation for that product or service that a consumer becomes aware of a number of other fees and charges relevant to the purchase / contract.

The effect of the Clarity in Pricing laws, though, was clearly applicable to *all* advertisers in the market, even those who never engaged in the sort of behaviour precipitating their development. Naturally, this particularly captured the most prolific advertisers among AMIF's members: new and used motor vehicle dealers.

AMIF's opposition to the laws was never in their underlying principles and nor were AMIF's members aggrieved in that regard. After all, all Australian motor vehicle dealers are subject to compliance with legislation found within the state or territory that is specific to their activities and

⁴ As derived from the *Trade Practices Amendment (Clarity in Pricing) Act* (Cth) 2008

operations. That legislation invariably compels dealers to act honestly and with integrity, which implies (if not explicitly states) that all advertising must be conducted in a like manner.

AMIF's concerns were, however, also contextualised by various other state and territory legislation and regulation. Most specifically, the variances that can be found across Australia in matters such as stamp duty, registration, third party insurance and other state-based fees and charges. As an example of that variance . . . Let it be assumed that a manufacturer advertises, nationally, an offer of a particular model of vehicle under the Clarity in Pricing law of \$39,990-00 'drive away'. That is, it costs a consumer that amount (at least, depending on the cost of any additional options to be fitted with the cost of that fitment negotiated at point of sale) to purchase the vehicle, irrespective if it is purchased in Perth, or Sydney.

The issue for the dealers in those respective capital cities, however, is that they face starkly different responsibilities in terms of stamp duty collection and so on. In the example provided, AMIF is aware, from accurate anecdotal reports, that the dealer in Perth is disadvantaged to the extent of \$2,000-00 (largely in terms of state stamp duty obligation) when compared to his Sydney colleague.

This scenario was one of those foreseen by MTAA during the development of the Clarity in Pricing legislation. It was one of the scenarios that informed MTAA's concerns with the legislation as it had been drafted. It was a concern that was brought to the attention of the relevant areas of the bureaucracy at that time and it was a concern that was met with a response of, "Couldn't care less."

There are a number of other ironies that might be considered in regards to the Clarity in Pricing legislation and its manner of being cast so widely as to catch all participants in the market. One is that, irrespective of advertised 'drive away' pricing of motor vehicles by dealers and manufacturers, the only manner in which a truly accurate price can be obtained on the 'on the road' cost of a motor vehicle – inclusive of all possible variances in terms of options, specifications and so on -- is for a consumer to visit a dealer and discuss those variances.

Another irony is that there have been industry sectors (specifically, hospitality) that have been granted some degree of exemption from the full effect of the Clarity in Pricing legislation. Restaurants, for example, are not required to produce different menus for public holidays specifically to reflect applicable surcharges for those occasions. Instead, it is sufficient for the restaurant to have a single notification, or advice, that a surcharge of 'X' percent applies. A motor vehicle dealer in Perth, however, it would seem has no ability under the legislation to place themselves on an equal footing with their colleague in Sydney in a national sales promotion.

Dealers across Australia nevertheless comply with the legislation in its current form: legislation that was created, in essence, in response to specific industries behaving in a specific manner (but which nevertheless vicariously ensnared dealer's operations). It is speculative if a more targeted response – other than a broad brush / carpet approach – was available to government at that time. If there was, it might have been better had that targeted approach been employed, so that the specific behaviour of a few might not need to be addressed by the imposition of a compliance burden, and cost, upon the many.

An easy solution to who's issue?

In recent times AMIF has been approached by one of the Government's agencies to discuss the early stages of development of a policy proposal. In essence, that proposal was for motor vehicle dealers to be compelled to include, in any advertising for a vehicle, the fuel consumption and emissions of that particular vehicle. The rationale for this proposal being, in basis, that consumers were entitled to be made aware of that information in order to assist them in making better informed purchase decisions.

AMIF's motor vehicle dealer members, when consulted on this proposal, reacted vociferously. The proposal was rejected by them out of hand. To them, the adoption of such a proposal would have imposed upon them additional marketing cost.

AMIF's formal response reflected the reality that would be faced by the dealers in the event of the proposal's adoption, but also looked at two other considerations. One consideration was that, in Australia, purchase decisions for motor vehicles are invariably made on a basis of factors unique to the Australian market and the demands made on vehicle. There are also myriad cultural artefacts (mostly covert in action) that guide purchasing decisions. That was not to dismiss that environmental factors played a role. Indeed, AMIF acknowledged that factors of that sort had increased in priority in vehicle-purchase decision making in recent years.

AMIF's other consideration, though, was that government already had a mechanism to provide emissions and fuel efficiency information to consumers in the form of the Green Vehicle Guide.⁵ AMIF pondered, therefore, why it was the *sector's* responsibility to bear the burden of what effectively amounted to the duplication of an existing resource?

The proposal purported to address the issue identified by government that consumers needed to be better informed regarding vehicle emissions and fuel efficiency. AMIF questioned if that need actually existed and was palpable, or if it was simply a desire of government? AMIF further questioned then, assuming it was a desire, why would one shift the responsibility for the satiation of that desire to another party? Would it not be a better solution for government to better promote the Green Vehicle Guide? Why do government's failings need to be others issues to provide a solution for?

Following this exchange with government, AMIF notes that the proposal has yet to be progressed further towards adoption.

"Let me assure you: that is not the intent."

AMIF – and its aforementioned predecessor body – was a significant stakeholder in the development of the Australian Consumer Law (ACL) and of its underpinning legislation; the *Competition and Consumer Act (Cth) 2010*. Even in its early stages of development, MTAA was able to identify areas of the draft legislation imbued with the risk of negative impact upon retail motor traders. Naturally, these areas were pointed out to the relevant officials responsible for that reform's development towards adoption.

⁵ See: <http://www.greenvehicleguide.gov.au/GVGPUBLICUI/home.aspx>

One area of concern at that time was the apparent inability of the draft legislation to make any clear distinction between a 'complex' and a 'simple' product. That aspect took on higher significance, as a second concern, when it intersected with the concept within the draft legislation of 'major' faults (and, by implication, 'minor' faults). All of which took on a yet higher significance when a third intersection occurred through the draft legislation regarding a retailer to be a 'supplier' and, as such, having like responsibilities for the service of warranties (for example) as a manufacturer might.

The implications of this were plain to see for the retail motor trades. Contemporary motor vehicles are inordinately complex in their engineering, with multiple layers of systems and sub-systems dependent on their interoperability. Motor vehicle dealers and other service and repair personnel need to have high-level skills in order to service and maintain these vehicles. Those same personnel are not, though, the people directly responsible for the design, engineering, construction, warranty and parts availability for those vehicles.

Yet, the draft ACL made no *practical* distinction between, say, a consumer presenting at the service counter at a major retail outlet with a faulty \$10-00 toaster, or a consumer presenting at a dealership for a prestige European vehicle manufacturer in their \$100,000-00 vehicle, which vehicle had its Anti-lock Brake System (ABS) warning light illuminated in the instrument cluster. Does an ABS warning light being lit constitute a safety-related and, hence, major failure? Do both consumers in these examples have equal entitlement to remedy? These are matters which were not canvassed by the draft ACL in a manner as to provide any clarity.

On numerous occasions, MTAA brought these potentialities to the attention of relevant officials. It is worth noting that MTAA's views were also shared by other bodies within the broader automotive industry, who echoed MTAA's concerns. On each occasion of these concerns being raised, however, MTAA received assurances from government officials that, "this is certainly not the intent of the legislation."

AMIF can confirm to the Commission, with the benefit of hindsight, the witness of at least two year's operation of the *Competition and Consumer Act* (Cth) 2010 and the reports of a number of its members, that it's predictions as to how the ACL might operate have been proven to have some veracity. It would seem to AMIF that the intent of government now – given that AMIF's predictions have been recognised in some quarters to have some accuracy – is to let there be a raft of new common law developed to fill the voids of clarity the ACL possesses.

Meanwhile, AMIF's members are the ones – as *suppliers* of complex products and services – that become a point of remedy provision to consumers. They have become, in effect, the meat in the sandwich between the manufacturer and the consumer: a consumer imbued with rights and entitlements hitherto not possessed and now equipped with a *prima facie* discretion to act as an arbiter of just what constitutes a 'major' fault within a 'complex' product: a product in which that have no expertise, or of which they possess a detailed knowledge. AMIF is willing to provide the Commission with further information in this context, but only on a completely confidential basis.

DISCUSSION AND SUMMARY.

All small businesses face some level of regulation and compliance burden. It is a fact of life and an element towards the maintenance of a civil society that there be 'rules'. Retail motor traders accept that reality; in some instances with a readiness exceeding that of the norm. Indeed, most of AMIF's Member Bodies have, as a condition of membership, Codes of Conduct that must be upheld and that insist that members act with integrity and honesty.

AMIF would suggest that reasonable rules are 'fair enough.' But it seems to AMIF as if there has been a trend within recent regulatory development for the concept of 'fair enough' to be discarded. It is worth the Commission noting that the examples provided, above, are not the full extent of occasions from which AMIF has been able to identify what seems to be an almost overarching philosophy.

It seems to AMIF as if there is a predisposition to 'tar everyone with the same brush' in response to a good many issues when, perhaps, a targeted response would be more equitable. Many retail motor traders feel like the atypical 'innocent bystander': dragged into something and forced to engage in compliance of some sort for behaviour in the market in which they have never, and will never (by dint of existing law) engage. It is as if a tar brush policy approach has been languorously adopted because the incisive, precision, targeted approach is too hard. AMIF would contend that the targeted approach isn't any harder, but that to do otherwise is simply unfair, not to mention inefficient. The shortcomings of the tar brush approach are particularly evident within the retail motor trades due to the broad scope and range of activities involved.

It is also a particular frustration to AMIF that policy makers seem to come to the industry with conceptions and notions of it that are hopelessly outdated and inaccurate. While it might be considered a good thing that government agencies bring these conceptions, along with relevant issues and proposals, to a stakeholder such as AMIF for its comments, it becomes a source of frustration to AMIF that those same agencies more often seek to insist that it is 'their' version, or image, of industry and its practices that are the only accurate ones. Even more frustrating for AMIF is when the only evidence producible by government for its view is the result of a desk-top research exercise.

The Australian motor industry as a whole is undergoing unprecedented change. Retail motor traders – AMIF's constituents – are in no way exempt from the impacts of that change, which has various sources of origin and drivers. Many traders are scarcely aware of the pall that could potentially settle upon them in the immediately forthcoming years. Indeed, it is effort enough for AMIF to be able to accurately perceive and predict the position the industry needs to be in to be viable at the end of the next decade. It beggars belief, then, that any government line department would presume to consider itself more an authority on an industry sector than the peak body organisation representing that sector. Yet, AMIF encounters such perceptions with an uncomfortable frequency. Again, AMIF is happy to provide the Commission with examples of this in circumstances of complete confidentiality.

It is also an observation of AMIFs that small businesses seem to be subject to regulation sourced in various 'fiefdoms'. These fiefdoms can exist and operate across all three layers of the Australian political structure. Even the federal level of government can bear witness to individual points of regulatory origin being imposed upon businesses (from the discreet 'silos' representing various heads of power).

AMIF suggests, therefore, the establishment of an Office of Policy Coordination within the Office of the Small Business Commissioner. That Office would act as a clearing house for regulatory duplication across the Australian Federation structure, as well as ensuring limited duplication of efforts in specific regulatory areas. For example, 'franchising' – a policy area of significant interest to AMIF and its members due to its prevalence within the industry -- has a home in three government departments and / or agencies: the Department of Industry, Innovation, Science, Research and Tertiary Education; the Treasury and the Australian Competition and Consumer Commission. Yet, there is seldom any evidence of coordination of activities in the franchising sphere by those bodies. An Office of Policy Coordination could provide that coordination.

CONCLUSION

AMIF considers there to be a range of efficiencies that might be gained, either immediately or in the future, through the adoption of a 'smarter' approach to regulatory development and compliance. A stronger and more earnest focus on identifying existing policy instruments in response to market issues is one suggestion towards this. Another is for government to be more prepared to work in partnership with industry sectors to achieve desired policy outcomes. Given the variety of portfolio areas that might be involved in exercises of that sort, coordination of those partnership efforts could be a role for the suggested Office of Policy Coordination.

AMIF also suggests there to be efficiencies gained from adopting a targeted, rather than tar-brush, approach to many issues in potential need for regulation. It has been seen by AMIF that retail motor traders find themselves increasingly subject to regulation and compliance regimes that have been developed and implemented as a result of behaviour not of their doing. It is not possible, in AMIFs view, for broad, market wide responses of that nature to be argued as being conducive to broader market efficiency and optimisation of resources.

AMIF would contend that there are efficiencies to be obtained if policy and regulation developers would approach bodies such as AMIF when proposals are still nascent. As indicated, it is a frustration to AMIF to be approached for its participation in a policy development or reform exercise and then find itself spending an inordinate amount of its efforts correcting the views and knowledge of the industry held by government and the bureaucracy. This is particularly frustrating for AMIF and its members when those efforts seem to be of little avail.

Finally, AMIF thanks the Commission for the opportunity to provide comments on this matter. It is hoped that the information provided proves of use to the Commission in its efforts. Please do not hesitate to contact the AMIF National Secretariat if there is any clarification or further information that is required.

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