



## **Submission to the Commonwealth Government Competition Policy Review (The Harper Review)**



**REPRESENTING:** \* Motor Traders Association of NSW (MTA-NSW) \* Victorian Automobile Chamber Of Commerce (VACC) \* Motor Trades Association of NT (MTA-NT) \* Tasmanian Automobile Chamber of Commerce (TACC) \* Motor Trades Association of SA (MTA-SA) \* Motor Trades Association of ACT (MTA-ACT) \* Motor Trade Association of WA (MTA-WA) \* Motor Trades Association of Australia (MTAA) \* Automobile retailers \* Australian Motor Body Repairers Association (AMBRA) \* Automotive Repairers Association of Australia (ARAA) \* Auto Parts Recyclers Association of Australia (APRAA) \* Australian Motorcycle Industry Association (AMIA) \* Australian Service Station and Convenience Store Association (ASSCSA) \* Australian Tyre Dealers and Retreaders Association (ATDRA) \* Farm and Industrial Machinery Dealers Association of Australia (FIMDAA) \* Engine Reconditioners Association of Australia (ERA of A) \* National Rental Vehicle Association (NRVA) \* Australian National Radiator Repairers Association (ANRRRA) \* Australian National Towing Association (ANTA) \* Automotive Transmission Association of Australia (ATAA) \* National Brake Specialists Association (NBSA) \* National Heavy Vehicle Repairers Association (NHVRA) \* National Steering and Suspension Association (NSSA) \* National Vehicle Airconditioning Association (NVAA)

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**AMIF Submission on Review of National Competition Policy (Issues Paper).**

Dear Mr Harper

Thank you for the opportunity to provide a submission in relation to the Review of National Competition Policy. The Australian Motor Industry Federation (AMIF) has also welcomed the opportunity to discuss this Review with Officers of Treasury and the Review Secretariat in recent weeks and months.

AMIF is the pre-eminent body representing the interests of over 100,000 retail motor trades businesses, which employ over 310,000 people and have an aggregated annual turnover in excess of \$208 billion. These figures, combined with the industry's scope and size, makes the retail motor trades the largest stand-alone small business sector in Australia. The Federation's membership consists of automobile chambers of commerce and the majority of state and territory motor trades associations.

**AMIF's Position**

**General**

- AMIF acknowledges and welcomes all that has been gained for retail motor traders and, thus, consumers and the Australian economy through developments in, and attention to, competition policy over the past two decades.
- The retail motor trades in Australia are one of the most heavily regulated sectors of the Australian economy.
- The retail motor trades in Australia are among the most competitive in the world.
- AMIF requests that the Review Committee keep on the agenda for further investigation central issues of unconscionable conduct and misuse of market power.
- AMIF requests that the Review Committee investigates how smaller traders might be able to more equitably access the existing provisions around matters that might involve constructs such as unconscionable conduct, or misuse of market power.
- AMIF calls for a closer examination of parallel imports from the perspective of more complex products.
- AMIF suggests that areas such as unconscionable conduct, misuse of market power, creeping acquisitions, cartel conduct and the like remain central to any review, or vigilance, around competition policy now, or in the foreseeable future.

## Overview

AMIF notes from the Issues Paper that the objective of Competition Policy needs to be:

*“ . . . to eliminate and counteract obstacles to effective competition in the field of production of and trade in goods, services and other products.”*

AMIF also notes the Object of the *Competition and Consumer Act (Cth) 2010* (Section 2), which states:

*“The object of this Act is to enhance the welfare of Australians through the promotion of competition and fair trading and provision for consumer protection.”*

AMIF takes no issue with either of those guiding principles. AMIF does acknowledge, however, that achievement of those objectives can be fraught with complexity, particularly in situation of grossly imbalanced market power and / or imbalanced power relationship between the various participants in what is essentially a free market economy.

The presumption that can attend such notions is that all participants are equally autonomous, self-determining and free to negotiate. The reality, however, is that some participants in the market are more equal than others. Or, to put it another way, markets evidence different levels of disadvantage, or advantage, throughout their operation (a reflection on societal structures).

AMIF also notes the acknowledgement by the Review Panel in the Issues Paper that this Review is the first of its sort in more than 20 years. That acknowledgement underscores the significance of this Review, particularly given the further acknowledgement by the Review Panel of the changes that have occurred in the Australian economy and market since the Hilmer Review of 1993.

As a way of illustrating just how different a world we inhabit now as distinct from the time of Hilmer, it is (perhaps unnecessarily) pointed out to the Review Panel that, 21 years ago, there was no such thing as the World Wide Web. Indeed, it is difficult to comprehend that there is now an entire generation of people who have grown up not knowing of a world pre the World Wide Web.

From the perspective of those observing the change, flux, evolution and adaptation within the retail motor trades, the last 20 years have given rise to some spectacular shifts in any number of the sector's characteristics. The drivers of those shifts are not of sorts that work in isolation to produce a particular impetus. Rather, there are multiple drivers that act and interact in a complex matrix to place a raft of challenges before retail motor traders.

As a result of this matrix of change, the retail, service, repair and recycling sectors of the Australian automotive industry are expected to face significant adjustment, or complete restructure, in the short to medium term. This will profoundly reshape business models, products and service provision and consumer/stakeholder relationships. As a result, some businesses will be forced to exit the industry, while others will need to adapt to seize opportunities for growth and long-term sustainability.

Rapid and significant change is already impacting some sectors, as the affects of globalisation; environmental protection policy; rapid technological advances; workforce shortages and changing skill requirements; shifting consumer behaviours; and the maturation, and / or decline, of business life-cycles are converging to create a period of unprecedented change in Australia's automotive industry. So significant are these anticipated changes that AMIF has developed its *Industry at the*

*Crossroads* Position Paper (attached), which provides some glimpse of the future for the retail motor trades.

### **Historical context**

The Australian Motor Industry Federation and its predecessor organisation the Motor Trades Association of Australia Limited (MTAA) have a long and proud history of highlighting the competition issues faced by its Members and their members in the retail motor trades, particularly those issues being faced by small business. It has been intimately involved and influential in achieving significant outcomes during the Dawson Review of 2002, and further reviews and amendments in 2006, 2007 and 2010.

AMIF notes the evolution of competition policy from the Hilmer reforms to the present. Often, it is only when some pause for reflection and introspection takes place that the extent of change over time can be seen and fully appreciated.

In 1992, MTAA made a submission to the Independent Committee of Inquiry's review of the National Competition Policy, chaired by Professor Fred Hilmer, highlighting 10 goals for competition policy reform. Throughout the 1990's, MTAA continued to argue for changes to the Trade Practices Act 1974, not just in relation to market conduct, but in respect of franchising issues.

In 2001 MTAA and other peak organisations secured a commitment for a further review of the TPA. During the course of 2002, MTAA decided that so important was it for small business to present a united voice to the Review, it set about convening a Fair Trading Coalition (FTC), attracting more than twenty small business associations. The FTC identified 14 critical issues requiring ongoing reform.

<b>Key Requirement</b>
<b>I. Strengthening &amp; protecting the Act – Parts IV &amp; IVA</b>
1. Return to first principles of competition policy
2. Collective Negotiation by small businesses
3. Effects test and specific prohibitions against anti-competitive conduct
4. Proscribe selling at unreasonably low prices
5. Section 50, Mergers
- no change to substantial lessening of competition test
- greater transparency in s87 undertakings
- industry structural reform matters by reference from minister
6. Section 51AC, Unconscionability in commercial arrangements arising from abuse of market power
- misuse of market power to be made an 'allowable matter'
- proscription of unilateral variation of contracts, unjust terminations and 'take it or leave it' contracts.
<b>II. Strengthening the ACCC and instruments of the Act</b>
7. 'Cease and desist' orders to prevent abuses of market power
8. Divestiture orders for abusers of market power
9. Full range of sanctions to be available to the ACCC
- criminal penalties for s.45
- pecuniary penalties for IVA and IVB
- corporate and Individual Parole to be available to the Courts
- companies to be prevented from indemnifying guilty individuals
10. Industry codes of conduct to be more readily employed by Government

<b>III. Formalising accountability</b>
11. TPA to fully apply to all Government Agencies
12. ACCC to have reporting processes formalized – Joint Parliamentary Committee (similar to Public Accounts Committee)
<b>IV. Better protection of the competitive rights of small business</b>
13. ACCC to handle complaints and take action on systemic issues appointment of a second small business commissioner to the ACCC ACCC to establish a ‘small business as consumers’ division
14. The Government to appoint an adequately resourced small business ombudsman

The ‘top ten’ goals of 1993 and 14 points of 2002 have arguably largely been ‘achieved’.

There have been significant changes in regulation around franchising; there have been true advances in areas such as ‘unconscionable conduct’, or ‘misuse of market power’. The old *Trade Practices Act* has been rendered almost ‘outdated’ in comparison to the *Competition and Consumer Act* (Cth) 2010. Much effort has gone into seeking to ‘balance’ the acknowledged and evident differences in power between participants in the market; to provide those participants with a level playing field; to uphold the objectives of competition policy and the objects of the CCA; and, in doing so, to counteract the imbalance of power relationship that is never more starkly evident than it is within the retail motor trades.

AMIF acknowledges and welcomes all that has been gained for retail motor traders and, thus, consumers and the Australian economy through the developments in competition policy over the past two decades that have sought and, in some instances, achieved those objectives.

The pursuit of trade practices reform has comprised a significant amount of MTAA and AMIF’s policy agenda over the past two decades. This advocacy is based upon the Association’s considered opinion that trade practices legislation must be responsive to the changing market practices and behaviours that effect competition and consumer choice. The slow nature of the reform process has not discouraged MTAA from continuing to advance its reform agenda. Indeed the Association is well regarded by Government for its open, if dogged, advocacy on this matter.

#### **AMIF Position**

- AMIF acknowledges and welcomes all that has been gained for retail motor traders and, thus, consumers and the Australian economy through developments in, and attention to, competition policy over the past two decades.

### **Competition in the Retail Motor Trades**

The retail motor trades in Australia are, despite superficial appearances, arguably one of the most heavily regulated sectors of the Australian economy. Certainly, a persuasive argument can be made that the retail motor trades in Australia are among the most competitive in the world. That reality is particularly evident among the new vehicle sales sector in this country.

No other country has the number of vehicle manufacturers represented within it as there are in Australia (66). No other country has the number of vehicle models available within it as there are in

Australia (350+). No other country has like concentration within its market to the extent where each new vehicle sold is within a market of such small size (10,000 people. In the US it is 100,000 people).

These realities bring with them a 'trickle down' factor to the other sectors of the retail motor trades. It likely explains why, for a nation of such relatively small population (but enormous geographic size and significant diversity of population pattern) it has around 100,000 retail motor trades businesses. That can be thought of as one business for every 235 Australian citizens, or as one business for every 172 vehicles on Australian roads.

Looked at that way, it suggests a highly competitive environment. But that competition is not just between fellow retail motor traders. Those traders also operate in a rich 'soup' including suppliers, manufacturers, and franchise arrangements: all of which are also in competition with each other and each with potentially hugely varying degrees of market power. In that, though, it is generally the reality that the retail motor trader will be a small to medium size enterprise: a 'mum and dad' type business with three or so employees.

A growing supplementary issue is the emergence of a plethora of definitions, descriptions, and identifiers of 'Small Business' across Commonwealth, State and Local Government jurisdictions; industry and markets (approximately 50 at last count), over the two decades since Hilmer. This has now manifested in inconsistent policy application to small business and arguably the creation of artificial barriers to enhance the sustainability and importance of small business engine to the national economy.

#### **AMIF Position**

- The retail motor trades in Australia are one of the most heavily regulated sectors of the Australian economy.
- The retail motor trades in Australia are among the most competitive in the world.

#### **Policy Evolution: Is it keeping pace with retailer's situations?**

As highlighted in the previous section, while AMIF recognises the massive evolutionary change in policy settings around 'unconscionable conduct', or the evolution of mechanisms by which imbalances in market power might be addressed by participants in the market who feel powerless, evidence within the retail motor trades sectors of the Australian automotive industry indicate there is considerable work still to be done.

Not because current configurations of the legislative and regulatory frameworks underpinning current competition policy are not addressing many past issues of significance, but because the central issues evident in 1993, again in 2002 and more recently in 2010, remain in 2014.

AMIF suggests those issues central to further investigations of the Harper Review Panel include:

- franchising<sup>1</sup>,
- unconscionable conduct,
- misuse of market power,
- unfair contract regimes<sup>2</sup>,
- parallel imports, and
- the inability of small business to access available tools to combat these issues.

Since Hilmer, the level of sophistication deployed by dominant participants in automotive markets and the complexity endured by retail motor trades participants and small business in general, have changed and grown commensurately.

Potential misuses of market power and unconscionable conduct are now more complex, more difficult to identify, harder to combat (despite policy and regulatory change) with an even greater reluctance on behalf of small businesses to fight against such behaviours (despite the introduction of stronger enforcement powers and compliance incentives).

AMIF respectfully suggests that in order to properly identify treatments and policy positions to address these issues the Review Panel does need to ensure it examines future potential competitive environments, not just the current or past examples.

To assist the Panel two case studies are provided to illustrate the potential for misuse of market power and the impact on competition in terms of the sophistication and complexity of markets since the Hilmer review 20 years ago.

#### **CASE STUDY 1: Smash Repair Insurance Company Relationships**

**Issue:** Adverse structural developments which could potentially see market power used to dominate the Australian supply of spare parts, smash repairs and the re-cycling of “written off” cars.

**Consumer /  
Competition  
Impact:**

The potential for structural adjustment of an entire industry sector can be demonstrated by the growth and consolidation of the motor vehicle insurance industry. These companies have fundamentally remodelled a significant part of the smash repair landscape . The level of sophistication and complexity these participants are bringing to the supply chain could negatively impact future competition and be a consumer detriment.

AMIF Member, the Victorian Automobile Chamber of Commerce (VACC) has prepared an addendum to this Submission which details their investigations into this potential. (See ADDENDUM2 with attachments A to E)

<sup>1</sup> With the area of franchising having been the centre of a great deal of attention in recent years, however, it is not the intention of this submission to engage in any detailed discussion around it.

<sup>2</sup> AMIF is aware of the work presently underway elsewhere and, as such, does not propose to canvass it in detail within this submission

## CASE STUDY 2: INDEPENDENT FUEL RETAILING & SHOPPER DOCKETS

<b>Issue:</b>	<p>The repeal of the 'Sites Act' and the 'merger' of petroleum and grocery retailing created the foundations for a redefined market. The introduction of 'shopper docket' customer loyalty marketing programs introduced a level of sophistication and complexity to a market where independent participants found it increasingly difficult to compete as discounts on fuel aligned to supermarket spend increased.</p>
<b>Consumer / Competition Impact:</b>	<p>Initial reviews found no consumer detriment and little if any evidence of cross subsidisation or other anti-competitive practices, Indeed many consumers particularly in lower social economic demographics applauded the initiative.</p> <p>Reviews, found largely that consumers benefitted from lower fuel costs, with no evidence of market change. This is despite evidence that the scheme was the final straw for many independent fuel retailers who closed and left the industry.</p>
<b>The Role of Competition Policy / Regulation</b>	<p>The ACCC had the necessary powers, but reviews / investigations tended to focus on recent and current market conditions and behaviours and immediate benefit /detriment to consumers / competition at that point in time.</p> <p>As the level of discounting grew, the claims of potential abuse of market power (through cross subsidisation between supermarket and fuel retailing operations) grew louder and more independent fuel retailers closed, AMIF implored the ACCC to re-investigate, but with greater emphasis on <u>future consumer detriment and lack of competition</u>.</p> <p>It could be argued that a more assertive interpretation and aggressive application by the ACCC of existing powers was evident.</p>
<b>Outcome</b>	<p>After a lengthy investigation by the ACCC, the two supermarket chains entered into undertakings which restricted the size of the discount and confined linkages between discounts to other purchases made in the fuel retailing business.</p> <p><b>These undertakings are now being closely monitored.</b></p>



## The Risk Factor

Another significant challenge within the realm of competition policy to address for the benefit of small business it is the reality of the fear of repercussion for making a stand, or for taking the steps now available at law in order to exercise ones rights in relation to misuse of market power or unconscionable conduct. It is that fear of repercussion; the possibility where ‘rocking the boat’ in the sense of a small business seeking, say, changes to a standard supply or purchase agreement, can mean that agreement is terminated , or the offer withdrawn, risks immediately impacting upon the ongoing viability of that business. And that fear does not just extend to arrangements of that sort. It extends to certain franchise terms (mainly in terms of policy and procedures rather than the agreements themselves).

AMIF has, on numerous occasions, sought to render assistance to retail motor traders in a number of those areas and through the mechanisms that might normally be available (collective bargaining / boycott). Invariably, steps are taken towards the path of remedy, right up to the point at which there is a realisation that the retail motor trader (or traders, if it is an affected group) need to ‘put their hands up and identify themselves’ to either the target, or some statutory authority (such as the ACCC). It is at that point that progress towards a remedy generally ceases and the trader(s) move to a position of acceptance of the circumstances. Irrespective of the obvious fears of retribution at that point being baseless, or otherwise, they remain very real to the parties in question.

All of which presumes that steps towards a remedy were taken in the first instance. It is far more likely a scenario that the trader(s) will simply ‘swallow’ the situation and make reference to it, at a later time, to an AMIF Member Body in a quasi-perfunctory manner. That reality creates particular frustration for AMIF and its Member Bodies, each of which have advocated for and witnessed the adoption of legislative and regulatory provisions that theoretically would, in large measure, address issues such as these. Nevertheless, AMIF and its Member Bodies also accept the apprehension of trader(s) to be well founded and justified.

All of which is to say that, despite the progress made in areas such as unconscionable conduct and misuse of market power – progress that has the potential to provide a true level playing field for market participants – **there still remains no true ‘safe harbour’ for a trader(s) to ‘call foul’ and not find themselves bearing a penalty of some sort.**

AMIF requests that the Review Committee allocate some attention to the question of how smaller traders might be able to more equitably access the existing provisions around matters that might involve constructs such as unconscionable conduct or misuse of market power. It has been suggested by some of AMIF’s Member Bodies that provision not dissimilar to ‘whistleblower protections’ could be employed for such a purpose. AMIF is not suggesting allowing smaller traders an unfettered right of protected objection; it is accepted that, in a free market, there can be a fine line between what is ‘fair’ and what is ‘harsh’. Nevertheless, AMIF considers that traders currently do not have enjoyment of those provisions developed to provide the sort of field of production of, and trade in goods, services and other products, which is calculated to enhance the welfare of Australians through the promotion of competition and fair trading.

### **AMIF Position**

- AMIF requests that the Review Committee keep on the agenda for further investigation central issues of unconscionable conduct and misuse of market power.
- AMIF requests that the Review Committee investigates how smaller traders might be able to more equitably access the existing provisions around matters that might involve constructs such as unconscionable conduct, or misuse of market power.

## Parallel Imports

While there may well be a good many competition reasons to embrace and encourage increased globalisation of markets, there can also be serious consumer detriments lurking within. One particular example of potential detriment can be evidenced in some examples of parallel imports. While most of the academic literature surrounding questions in relation to parallel imports seems to err on the side of support for such activity, it needs to be pointed out that much of that discourse has been singularly focussed on issues surrounding the importation of books, or DVDs, or computer software. Little consideration has been given to more complex goods, such as motor vehicles.

Currently in Australia there are certain soundly justifiable restrictions around the wholesale importation of motor vehicles (as in passenger cars). For other 'motor vehicles', however, there are much fewer restrictions (farm machinery – tractors and the like – is a perfect example). This has seen some measure of proliferation of 'grey import' machinery being sold in Australia, mainly through auction houses.

While a *prime facie* evaluation of this activity might suggest it to be conducive to competition, closer analysis may well reveal the pendulum being swung more towards grave concerns for consumer protection.

Much of the equipment being bought in as 'grey import' for auction is sold on an 'as is; where is' basis. Much of it presents as models not sold domestically, yet made by known-in-Australia-manufacturers. A good deal of it does not meet the various state / territory regulations with respect to matters such as roll-over protection, or lighting, or other user protections (guards over power take offs for instance).

These circumstances create situations where local dealers representing these same manufacturers are unable to provide adequate levels of service and support for the 'grey import' equipment. The trading of this equipment seems regulated largely by an implied element of 'buyer beware' and little else.

This specific area is one in which competition policy and the goal of competitive markets must not be allowed to flourish at the expense of consumer protection. AMIF is already deeply concerned about consideration being given by government to proposals to lift restrictions on the large scale importation of second hand passenger vehicles into Australia (for a raft of reasons). Yet it already sees consumers being exposed to financial, as well as health and safety, risk through what seems to be an almost unfettered influx of farm machinery.

AMIF calls for a closer examination of parallel imports from the perspective of more complex products. It is surely acknowledged that the risk to consumers can be much higher through potentially sub-standard machinery entering the country than the likely risk of harm from a book, a DVD, or a computer game.

### **AMIF Position**

- AMIF calls for a closer examination of parallel imports from the perspective of more complex products.

## **Conclusion**

AMIF considers that this review is timely and warranted. In the twenty years since the last major review of National Competition Policy, the world and markets have changed markedly. That it not to say that competition policy has remained stagnant in that time in Australia: all the evidence is there that it has continued to evolve and has managed to maintain contemporary relevance.

The challenge, as far as AMIF can see, is how competition policy needs to be formed and developed to meet the competition and market needs of the future. Certainly, AMIF knows that the retail motor trades in Australia will look utterly different in 10 – 15 years' time to what it does presently. AMIF considers that while much progress has been made during the evolution of competition policy in Australia, there will forever remain perennial concerns around areas such as unconscionable conduct, misuse of market power, creeping acquisitions, cartel conduct and the like. For while these are particular areas of development, it remains that traders still have difficulty enjoying the protections those developments theoretically afford.

AMIF would suggest, therefore, that those areas continue to remain as central concepts to any considerations, analysis or further review of competition policy now, or in the future. AMIF stands willing and able to be of whatever assistance it can be to the Review Committee and its Secretariat.

If there are any further questions or you would like further clarification on the points raised within this submission, please contact Mr Richard Dudley, CEO of AMIF at [richardd@amif.com.au](mailto:richardd@amif.com.au) or Mr Colin Duckworth, Director Policy at [colind@amif.com.au](mailto:colind@amif.com.au) .

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richard Dudley', with a stylized flourish at the end.

Richard Dudley  
CEO  
Australian Motor Industry Federation  
27 June 2014

## **ADDENDUM 2 – AMIF SUBMISSION**

**“Smash Repair Insurance Company Relationships – Direct Supply of Parts; the Suncorp LKQ joint venture - Adverse Implications for Competition in the Australian Smash Repair Market.”**

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### **CASE STUDY: The Competition Policy Review 2014 (The “Harper Review”)**

The Victorian Automobile Chamber of Commerce (VACC) welcomes the opportunity to make a contribution to the Harper Review as part of a broader submission by the Australian Motor Industry Federation. It congratulates The Minister for Small Business, the Hon. Bruce Billson for this timely initiative.

VACC would like to concentrate on what it sees as disturbing anti-competitive practices and the development of vertical integration business models contrary to consumer interests in the smash repair and insurance area. The VACC sees these models as fundamentally anti-competitive.

### **Who is the VACC?**

Established in 1918 the VACC has almost 5,000 members in Victoria, and almost 400 members in Tasmania.

Today, the VACC represents the interests of over five thousand small and medium sized businesses in regional and metropolitan Victoria, and it is the premier association for employers and business people in the motor industry in Victoria. Our members employ around 50,000 Victorians and provide key services in the repair, service and retail sectors of the automotive industry.

VACC is made up of 29 divisions and specialist groups. Whatever the automotive industry sector, VACC has a division, specialist group or general membership category to cater to those needs and to protect members’ interests in business:

The VACC is dynamic and an influential employer association that protects and promotes the interests of its members through automotive industry advocacy, delivery of member support services and provision of competitive automotive industry services.

It is an employer association that advocates the interests of its members and delivers them support services, as well as building organisational wealth through wise investment and the provision of competitive industry support services in order to enhance the capacity of VACC to protect and promote the interests of its members.

### **Who are Our Members?**

VACC members include new and used vehicle dealers, service station operators, automobile repairers, crash repairers, automotive electricians, tow truck operators, dismantlers, farm machinery dealers, tyre retailers, engine re-conditioners and radiator repairers. The employment VACC members provide, the wealth they generate and the key services they offer make an important contribution to the economy of the State and the communities in which they operate.

VACC members are part of your neighbourhood, and valued members of your community. All VACC members adhere to a Code of Practice. The importance of VACC members as part of local communities will be explored later in this submission.

The VACC Auto Apprenticeship Program currently employs over 400 apprentices and trainees working within the retail automotive sector across Victoria and Tasmania. Since the beginning of the program in 1983, over 700 people have qualified through the scheme which places individuals with "host" employers for on-the-job training.

### **The VACC's contribution to the Economy**

The automotive retail, service and repair (RS&R) sector is Australia's largest small business sector and, with an aggregate annual turnover of +\$160 billion, is a significant contributor to the Australian economy. It is also a significant employer, with over 310,000 Australian's employed across 52 recognised automotive trades and skills categories. Ranging from small 'Mum and Dad' businesses to medium sized multi-site operations, our sector sells, services, repairs and fuels Australia's 17.2 million strong motor vehicle fleet.

The VACC represent approximately one third of these totals.

### **The VACC's Competition Concerns**

**In broad terms the VACC would like to bring to the attention of the Committee adverse structural developments in the industry which will potentially see international market power used to dominate the Australian supply of spare parts, smash repairs and the re-cycling of "written off" cars. It is the VACC's assessment that these business alignments, which have just been put in place, potentially jeopardise many of our more than 5,000 small business operators and in turn put at risk the 50,000 Victorians and Tasmanians they employ.**

### **VACC: The Committee's Terms of Reference and "Scope of the Review"**

The VACC believes certain elements of the Committee's "Scope of the Review" are immediately relevant to the concerns expressed above. The "Scope of the Review" states inter alia that the Committee should:

**4.1. Examine the structure and behaviour of markets with natural monopoly characteristics with a view to determining whether the existing regulatory frameworks are leading to efficient outcomes and whether there are opportunities to increase competition;** (VACC Emphasis)

4.2. Examine whether key markets – including, but not limited to, groceries, utilities and automotive fuel – are competitive and whether changes to the scope of the CCA and related laws are necessary to enhance consumer, producer, supplier and retailer opportunities in those markets and their broader value chains;

4.3. Consider alternative means for addressing anti-competitive market structure, composition and behaviour currently outside the scope of the CCA;

4.4. Consider the impact of concentration and vertical integration in key Australian markets on the welfare of Australians ensuring that any changes to the coverage and nature of competition policy is consistent with national economic policy objectives.

### **The Committee's Terms of Reference:**

The VACC endorses key elements of the Committee's Terms of Reference and also argues they are of direct relevance to the VACC's concerns about anti-competitive behaviours in the smash repair and vehicle insurance industry. Those select Terms of Reference include key clauses and the preamble which states inter alia:

"An effective competition framework is a vital element of a strong economy that drives continued growth in productivity and living standards. It promotes a strong and innovative business sector and better outcomes for consumers".

### **The Terms of Reference explicitly endorsed by the VACC include instructions to the Committee to:**

- Examine the competition provisions of the Competition and Consumer Act 2010 (CCA) to ensure that they are driving efficient, competitive and durable outcomes, particularly in light of changes to the Australian economy in recent decades and its increased integration into global markets;
- **Examine the competition provisions and the special protections for small business in the CCA to ensure that efficient businesses, both big and small, can compete effectively and have incentives to invest and innovate for the future;** (VACC Emphasis)

**The Terms of Reference also state:**

1. The Review Panel is to inquire into and make recommendations on appropriate reforms to improve the Australian economy and the welfare of Australians, not limited to the legislation governing Australia's competition policy, in regard to achieving competitive and productive markets throughout the economy, by identifying and removing impediments to competition that are not in the long-term interest of consumers or the public interest, having regard to the following principles and the policy priorities:

1.1. **No participant in the market should be able to engage in anti-competitive conduct against the public interest within that market and its broader value chain;** (VACC Emphasis)

2. The Review Panel should also consider and make recommendations where appropriate, aimed at ensuring Australia's competition regulation, policy, and regulatory agencies are effective in protecting and facilitating competition, provide incentives for innovation and creativity in business, and meet world's best practice.

**The Terms of Reference go onto say the Committee should be:**

3.3. Ensuring that the CCA appropriately protects the competitive process and facilitates competition, including by (but not limited to)

3.3.2. **Considering whether the misuse of market power provisions effectively prohibit anti-competitive conduct and are sufficient to: address the breadth of matters expected of them, capture all behaviours of concern, and support the growth of efficient businesses regardless of their size;** (VACC Emphasis)

3.3.4. **Considering whether the framework for industry codes of conduct (with reference to State and Territory codes where relevant) and protections against unfair and unconscionable conduct, provide an adequate mechanism to encourage reasonable business dealings across the economy—particularly in relation to small business;** (VACC Emphasis)

**The Terms of Reference require that the Committee should also:**

3.4.2. Provide appropriate mechanisms for enforcement and seeking redress including;

- Whether administration and enforcement of competition laws is being carried out in an effective, transparent and consistent way;
- Whether enforcement and redress mechanisms can be effectively used by people to enforce their rights—by small businesses in particular; and
- the extent to which new enforcement powers, remedies or enhanced penalties might be necessary and appropriate to prohibit anti-competitive conduct.

**The Suncorp-LKQ Deal & its Anti-Competitive Impacts**

This brings the VACC to its central concern focussing on likely anti-competitive behaviour flowing from the joint venture partnership announced by Suncorp and US company LKQ in August 2013. Suncorp currently controls 35% of the motor vehicle insurance industry through a web of subsidiaries that includes AAMI insurance.

The Suncorp Media Release stated: “The Suncorp Group today announced it had formed a joint-venture with international automotive parts company LKQ to establish an Australian parts supply and recycling business.”

### **In the view of the VACC’s submission it will do much more than that.**

On face value LKQ Corporation-Suncorp Group joint venture will develop an alternative auto parts business in Australia and New Zealand. Suncorp Group is Australia's largest insurer (measured by premiums). LKQ will supply aftermarket parts to the joint venture and establish an automotive parts recycling operations. Suncorp will supply salvage vehicles and establish relationships with repair shops as customers.

The joint venture therefore raises two questions: 1: How the competitive landscape in automotive replacement parts will now change as a result of this joint venture; and 2: How will it affect small, family owned businesses in the industry?

### **The Australian Automotive Aftermarket Explained; the Suncorp-LKQ Threat Revealed**

The Australian automotive aftermarket is a \$34 billion industry. It has grown an average of 3.5% per annum over the last two years and expectations are for growth to continue. There are an estimated 13,000 independent aftermarket businesses performing service and repair work worth about \$7.7 billion a year. About 5,500 businesses have a specialist focus e.g. brakes, cooling, and suspension.

The local industry is broad and includes mechanical repair and modification services, manufacturing and re-manufacturing, importing, wholesale, distribution and retail sales for all vehicle parts, accessories, tools, equipment and services. Australia’s aftermarket manufacturing sector has an international reputation for high quality product in niche markets.

One of the industry’s challenges is establishing a level playing field for the Australian automotive aftermarket sector in a global market. There is little Government support. Also input costs and employment laws put pressure on business viability, forcing the industry to consider greater off shore production.

New technologies and globalisation are changing automotive parts aftermarket business models. For instance, imported vehicles present new opportunities but also challenges for independent aftermarket operators.

Another recent study (VACC Accenture published 2006 ‘Horizon 2015 Changes and Challenges for the Australian Retail Automotive Industry’ (p223) ) predicted insurer parts alliances in the future, forecast more consolidation of aftermarket distributors as well as servicing and maintenance providers as scale becomes critical for profitability.

The study also predicted:

- More competition from original equipment services (OES) via capped price servicing and longer warranty periods on new vehicles sold
- Demand for SUV parts and accessories to drive Australia’s automotive aftermarket industry growth
- Sector expected to grow at a compound annual growth rate (CAGR) of 1.7 per cent (2012-2020)
- Opportunities for new players due to future hybrid and electric vehicle growth
- Significant increase in internet use when buying aftermarket parts
- Diverse Australian car parts means aftermarket parts distributors must hold varied inventory, placing pressure on small independent distributor margins

### **The US Automotive Aftermarket; LKQ the 800lb Gorilla in the Australian room**

The total U.S. motor vehicle aftermarket is projected to reach \$318.2 billion in 2013. The automotive sector is projected to grow to \$239.1 billion while the medium and heavy-duty



sectors are set to grow to \$79.1 billion, representing a total increase of 3.4 per cent in sales volume over 2012.

One of the most prominent global suppliers is LKQ Corporation. LKQ stands for "Like Kind Quality." LKQ is the US's largest provider of alternative vehicle collision replacement products and a leading supplier of alternative vehicle mechanical replacement products. Its prime business advantage lies in its large network which allows customers more access to inventory. LKQ operates over 500 facilities to provide replacement parts, components, and systems to repair cars and light, medium, and heavy duty trucks.

LKQ distribute a range of products to collision and mechanical repair shops, including aftermarket collision and mechanical products, recycled collision and mechanical products, refurbished collision replacement products such as wheels, bumper covers and lights, and remanufactured engines.

Its wholesale operations reach most major markets in US and Canada, and LKQ are a leading provider of alternative vehicle mechanical replacement products in the UK. Also, LKQ operates in the Benelux, France, Canada, Mexico and Central America.

In addition, LKQ operate self-service retail facilities across the U.S. that sells recycled automotive products. In total, LKQ has four operating segments: Wholesale—North America; Wholesale—Europe; Self Service and heavy duty trucks.

LKQ obtain most of its aftermarket inventory from automotive parts manufacturers and distributors based in the U.S., Taiwan, Europe and China.

Recycled automotive products are sourced mainly by purchasing salvage vehicles, typically severely damaged by collisions and primarily sold at salvage auctions or pools, and then dismantling and inventorying the parts. The refurbished and remanufactured products that are sold, originate from the salvage vehicles bought at auctions and from trade parts from customers purchasing replacement products from LKQ.

The majority of LKQ products and services are sold to collision repair shops, or body shops and mechanical repair shops. LKQ indirectly rely on insurance companies to help drive demand as insurance companies exert significant influence in the vehicle repair decision.

LKQ has relationships with some insurance companies in North America for which LKQ are designated a preferred products supplier. LKQ plan to establish similar relationships with insurance companies in Europe.

**Key statistics LKQ - fiscal year ending December, 2012: Sales: \$4,122.9M One year growth: 26.1% Net income: \$261.2M Income growth: 24.2%**

#### **Key LKQ insurance company alliances**

- Safe Auto Insurance (Ohio) 2010 salvage alliance
- Joseph M. Holsten, Chairman of LKQ Board, is also a board member of Covanta Holding Corporation, a holding company in the energy-from-waste solutions and providing property and casualty insurance products in California i.e. primarily through National American Insurance Company of California (NAICC)
- John F. O'Brien, LKQ Director, retired in 2002 as the Chief Executive Officer of Allmerica Financial Corporation, a public insurance company (AKA The Hanover Insurance Group)
- Allstate, Nationwide and State Farm Insurance companies
- Universal Underwriters Insurance
- Adrian Flux UK car insurance <http://www.adrianflux.co.uk/> (LKQ's Twitter account follows this company, exact relationship undetermined)
- CheapestAutoInsuranceQuote.com <http://clickinsure.com/> (LKQ's Twitter account follows this company, exact relationship undetermined)
- Grundy insurance <http://www.grundy.com/special/possessions.aspx> (LKQ's Twitter account follows this company, exact relationship undetermined)



LKQ has now added Suncorp Group Australia to that list of global alliances. As already stated the Suncorp joint venture was formed in August 2013. LKQ will supply aftermarket parts to the joint venture and will establish automotive parts recycling operations. Suncorp will supply salvage vehicles and establish relationships with repair shops as customers.

In 2006, a VACC research project entitled ‘Horizon 2015, Changes, and Challenges for the Australian Retail Automotive Industry predicted that; ‘Insurance companies’ (will move) into direct sub-letting of work, and involvement in selecting direct suppliers of parts (this) will add to the pressures on smaller businesses as the ability to mark a margin on the items is removed.’

It is the VACC’s submission to the Committee that this is exactly what will happen in the Australian market as a result of the Suncorp-LKQ alliance.

In the Horizon 2015 Report, commissioned by the VACC, the consultancy Accenture predicted under the heading “Challenges and Outlook”: *“The major issue facing body repairers is exposure to the market power of insurance companies. The process used by major insurers to allocate damaged vehicles for repair, and the prices they are prepared to pay, reduces the available work and the quality of repairs allowed.”*

*“This can affect the financial viability of repairers, particularly those that are not part of an insurer’s network. However, insurance work for many crash repairers attracts significantly lower hourly rates than private work, and repairers have had to absorb increases in general overheads, labour costs and GST to retain the work.”*

*“Due to fragmentation in the industry and un-even business management skills in costing, quoting and negotiating, insurance companies are likely to continue to dominate the industry.”*

It is The VACC’s submission to the Committee that the Suncorp-KCQ alliance will only exacerbate the prediction made by Accenture. The alliance between Suncorp and LKQ will lead to a substantial lessening of competition in the smash repair and spare parts market.

LKQ is noted for its market strategy of centralising its distribution points for spare parts. This will also have impacts on local regional and rural communities. Not only could their local smash repairer be forced to the wall by potential predatory pricing – the local car dealership will cease to be a supplier of spare parts with all that might entail for business viability and local employment. And, last but not least, consumers may have to wait days, rather than minutes for the provision of spare parts.

### **The LKQ Strategy**

In its own words LKQ’s competitive advantage lies in the company’s broad (i.e. ‘one stop shop’ for customers) inventory of quality alternative collision and mechanical repair products, high fulfilment rates and superior customer service.

In continuing this strategy, LKQ intends to continue expansion into new markets to boost organic penetration and, via acquisitions in targeted markets, it has already begun to do so.

In highly fragmented and competitive markets such as automotive replacement parts, price becomes a key factor in achieving competitive advantage.

### **But in an Alliance with Suncorp LKQ’s Pricing Strategy Threatens Small Business**

**How?** Through the interaction of LKQ’s bulk based cut pricing of spare parts and the operation of National Smash Repair Networks (NSRs). These are insurance company preferred repairers. Each major insurer has their own network. Independent repairers allege that at the first point of contact between the motorist involved in an accident and the insurer, the insurer “steers” the motorist to their preferred network repairers.

According to submissions to the 2014 Review of the Motor Vehicle Insurance and Repair Industry Code of Conduct there were a majority of complaints by independent repairers about the effectiveness of Clause 9.3 of this section of the Code, which reads:

“Insurers will not make misleading or deceptive statements about the quality, capability or timeliness of Repairers that are not members of an Insurer’s NSR scheme;”

According to the Code Review: “Insurers defend their Partner Repairer Networks in the following sorts of terms: “(it) has been in operation since July 2012 and is built around Repairers who share our values for quality, safety, integrity and excellent customer service. When our customers make an insurance claim we proudly and unashamedly promote their services.”

“Our strategy to partner with smash repairers for the benefit of the customer, and for both our businesses, means we work more closely with some smash repairers than others. However, the fact that one in four of our customer’s cars are repaired outside our network through our “choice of repairer” policy for customers means we work with most repairers on a regular basis.”

“Our standard scripts used to ensure our customers are informed about our NSR Partner repairers were developed in consultation with industry stakeholders.”

“Independent Industry mediators, however see a darker side: “When customers nominate their own repairer under “Choice of repairer policy”, insurers are delaying assessment process to discourage and steer business to their own preferred shops implying to customers that there is more convenience and quicker repair time involved than with their nominated repairers.”

“When customers nominate their own repairer under “Choice of repairer policy” insurers are engaging in words such as “they are not one of our recommended repairers or they are not on our approved list of repairers. However, you can use them if you wish but there will be delays in processing your claim including assessment and authorizing repair times as they are not on line with us.”

The mediators ask: “Isn’t this discriminatory to customers wishing to use their own choice of repairers? Insurers appear to be engaged in intentionally creating doubts to manipulate the customer’s decision to the insurer’s benefit.”

The Code Review found: “The clear impression left by submissions to the Review is that insurer teleclaims officers seek to confuse the claimant to the point where they accept direction on where to go to get their car repaired.”

“For example; the teleclaims operator will often overstep the mark and breach the Code by saying such things as “you do realise they are not one of our preferred repairers and if you do have your car repaired there you won’t receive a lifetime warranty” (which they do).

“They go on to state that it will take longer to get it repaired and that the insured will have to keep track of the repairs themselves and if there are any issues, they will have to resolve them themselves.”

According to one Review submission from a repairer: “The teleclaims officers try to convince the insured to take it to their preferred repairer by making it sound so difficult and time consuming that it is very off putting and puts enough doubt in the insured’s mind. Most of the things they tell them are untruths, but no matter how many IDR’s we put in and promises we receive that they are rectifying the problem, it still keeps happening on a regular basis.”

**The VACC submission to the current Harper Committee is that these insurance company practices will only become more entrenched and enhanced with the reduced cost of parts and parts availability on offer under such alliances as the Suncorp-LKQ joint venture. In other words this joint venture will further serve to reduce competition within the smash repair industry.**

**These kind of price-based “exclusionary practices” by insurance companies are already common in the industry. It is the VACC’s submission that under the Suncorp-LKQ deal such practices will become the “norm”.**

### **Case Study 1:**

In order to make profits insurance companies routinely endeavour to pay repairers as little as possible to fix their policy holders' vehicles. Take the case of "Jack" (not his real name because he fears retaliation from insurance companies. "Jack" recently brought his case to the VACC. "Jack" says that when he decided not to renew his contract with a leading insurance company, the relationship immediately turned "nasty". "Jack" says he was told "Game on," by a representative of the insurance company. Asked by the VACC whether from that point on the insurance company made business life difficult for "Jack" had this to say: "We had five years with this insurance company. Then they decided they would have 'partner repairers'. We weren't selected, so they sent an 'associate repairer' contract to sign. When I didn't sign, they said: 'Because you haven't signed we're going to make it hard for you. The company called me asking me when I was going to sign the contract. I said I wasn't going to; we made a decision to row our own boat.' The voice on the other end of the line then said something "Jack" says he will never forget: "We will tell our customers not to go to your business.' It could get its jobs in its own repair shops by cash settling our customers or not warranting our work. Having his customers diverted to competitor businesses is not the only issue "Jack" had with this leading insurer. "This company wants me to buy my parts from their preferred providers, businesses that I don't deal with," an observation that borders on "third line forcing". At the very least it comes under the heading of "exclusionary provisions". Jack: "I have to order parts from Sydney and then have them sent to me. If the part is rubbish the Insurance Company don't care; I have to deal with it. If I tell the insurance company that I have a good supplier five kilometres away they say: 'This is the price we're going to give you, because we can buy it for that much from preferred supplier.' Jack: "I tell them that if they want to supply the parts, then they can, and they should send the parts. But they have to deal with any issue when they arrive. The insurance company says that it doesn't do that." If the insurance company, knows a competitor knows that a required part is available for a certain price, that's all it will pay. Clearly the insurers 'get out of jail card' is to state that it is not forcing smash repairers to buy parts from any particular suppliers. But when "Jack's" supplier charges \$180 and his insurance company is only willing to pay \$75, the company will advise him that it isn't going to pay \$180 for the part when it can get one cheaper. This will become standard practice once the Suncorp-LKQ alliance is up and running. If the insurance company can find a supplier in Sydney, it will recommend that part and specify the price. But "Jack" is located lead times, freight costs and damage risk are all factors that have to be factored in. Compounding the competitive difficulties is that the Sydney supplier, who doesn't normally deal with "Jack" will insist on receiving up-front payment before the insurance company has paid "Jack". If "Jack" sourced from his usual parts supplier, his account-holder status means this small business debt-burden would not be an issue. "Jack." says: "We have to pay for freight, and then there are the freight forwarders who might damage the part. The seller and the insurance company don't want to know about it, so it becomes an issue for us to sort out with the courier.

According to "Jack: the last straw came with his insurance company when customers relayed back to him that the insurance company was advising them to take their business elsewhere. This particular insurance company is a law unto itself," says Jack. Right from when I lodge a claim. They tell customers that they're not going to warrant the repairs or authorise the repairs if the consumer uses a repairer not of their choosing."

**Such practices are wide-spread in the industry. It is the VACC's submission to the Committee that the Suncorp-LKQ will dramatically entrench and extend such practices.**

### **Case Study 2:**

How “Big Versus Small can affect an entire town.

“Bill” (again not his real name) says his family owned smash repair business is often forced to purchase parts from Melbourne-based businesses when he would prefer to support other businesses in his town, with whom he has long standing and healthy business relationships. Being forced to source parts from a large capital city supplier puts a hole in the money-go-round that keeps smaller communities alive. The local parts supplier earns enough money to buy a BBQ from the local hardware store, whose owner then buys some sporting goods from the other local retailer, and so it goes on. When the local parts supplier is cut out of the loop, a link in the community chain is broken and others suffer financially; the community itself is diminished, with any loss in commercial relationships between country businesses, networks break down and conducting business becomes a lot harder for all concerned.

This potentially damaging impact on competition of the Suncorp-LKQ alliance is held much more broadly than just by the VACC. Consider the following article which appeared in The Melbourne Age newspaper on April 14, 2014 headlined:

“Automotive Alarm bells over Suncorp venture with US company”. The article went on to say: “Thousands of jobs could be at risk from an aggressive push into automotive spare parts mounted by insurer Suncorp and a controversial US company, the crash repair industry warns.

Queensland-based insurance company Suncorp, which controls swathes of the auto insurance industry through household names including AAMI, GIO and Bingle, has entered a joint venture with Nasdaq-listed LKQ, which has been under pressure from short sellers over allegations it has exaggerated its revenue growth.

Last month the joint venture, ACM Parts, made its first move, snapping up NSW vehicle salvage business Frank's Parts for an undisclosed sum. The move could cut middlemen such as auction yards and wreckers out of the supply chain that recycles parts from smashed cars into the repair business.

Suncorp claims spare parts are over-priced, but Victorian Automotive Chamber of Commerce executive director David Purchase said the move could send small businesses to the wall, costing jobs.

"It's very difficult to put a precise figure on it, but it could run into the thousands [of jobs]," Mr Purchase said. "This is a very large company that has made it very clear that their intention is to dominate markets.

"When you have large conglomerates like this dominating markets, frequently the wash is that many small businesses go under." Mr Purchase said Suncorp's existing network of repair shops already had put the sector under pressure. "I think there are similarities with the supermarkets' control of their suppliers, and we don't want to see that occur more than it's already occurring in our sector," he said.

"Our concern is that the insurers are attempting to dominate the industry from cradle to grave." Mr Purchase also raised concerns about the financial viability of LKQ, which was the subject of a scathing research report from short-sellers Prescience Point in January. LKQ stock plunged 8.9 per cent on January 16 after the report, titled Cashless Clunker, was released, and has yet to recover to its previous levels. The report attacks the record of backer Wayne Huizenga, whose previous companies included the successful Blockbuster Video in the US and garbage group Waste Management, which reported \$US1.7 billion in fake earnings in 1998.

Prescience Point (US based market analysts) also accused LKQ of "aggressive accounting" to engineer profits and said the company could stay afloat only if it continued to buy up competitors.

It should also be noted that car manufacturers are required to hold parts for 10 years. This represents a large cost. The same constraints will not apply to LKQ. This is also a safety issue. Franchise dealership will miss out on this trade because of LKQ and its relationship with LKQ. If the manufacturers cannot make money through parts there is a real risk that will simply quit the market. Prices of cars will go up, as dealers seek to recoup losses incurred in the parts side of their business. Safety standards will decline.



### Why the Consumer Loses through Less Competition

It is the VACC's submission that while the Suncorp LKQ alliance will result in increased profits for Suncorp there has never been any evidence of profit taking resulting in reduced premiums for policy holders. The VACC anticipates that the increased profits will go straight to Suncorp's bottom line.

Journalist Ian Porter, writing recently in the VACC Auto Magazine came to similar damning conclusions as The Age. Porter also examined some of the "colourful" difficulties LKQ's founders and principals faced with US financial regulators. The article appeared as follows under the headline:

### **"SUNCORP DIRECTORS MAY DO WELL TO RECONSIDER THE PLAN TO GET INTO BED WITH LKQ"**

**It read: Suncorp Group and American acquisition giant, LKQ, have joined forces in Australia, hoping to shake up the local parts market. But a new share analysis by US firm, Prescience Point, has cast grave doubts over the integrity of LKQ's business model. After reading the report, Ian Porter asks: Should Suncorp be dealing with this company?**

Keeping an eye on vehicle repair costs is a prudent business decision when you are a \$15 billion insurance giant like Suncorp. As with many cost-reduction programs in the past, the company's latest plan is guaranteed to dim the company's image in the eyes of thousands of repair shop owners who are going to feel the heat.

But, unless the Brisbane-based financial conglomerate treads very carefully, it might find that the joint venture it recently unveiled may also dim the company's image in the eyes of share market investors.

And that's a good way to turn a \$15 billion company into something worth a lot less.

The joint venture in question is the scheme cooked up with the US Company LKQ Corporation, which plans to establish wrecking yards in Australia in order to supply recycled parts to repairers. Suncorp owns 25 repair shops and also has a network of preferred repairers who handle vehicles insured with Suncorp's brands. These brands include AAMI, AA Insurance, GIO, Apia, Shannons and Bingle.com.au.

The idea is that LKQ will be given access to the 60,000 vehicles a year that Suncorp writes off, on behalf of its insurance customers. This plan could cut existing wrecking yards out of the loop, as well as towing operators and the auction houses that usually handle written-off vehicles.

Suncorp is hoping this system will reduce the cost of the recycled parts. LKQ also plans to supply non-genuine new parts, some made by its US subsidiary Keystone Automotive.

The LKQ/Suncorp joint venture, according to an article in Paint & Panel magazine, is planning to establish a wholesale wrecking yard, a self-service wrecking yard and an aftermarket parts distribution outlet in Melbourne, Sydney and Brisbane.

If it can't get planning approval for the new yards, says LKQ CEO, President and Director, Robert L. Wagman, in Paint & Panel, it will seek to acquire established wrecking yards.

LKQ is no stranger to acquisitions and, in fact, buying many existing businesses is the way in which it has managed to grow so quickly in the US and Europe. It is also why it has attracted a very negative assessment by one US share market analyst.

Since it was formed in 1998, LKQ has acquired 170 companies in a get-big-quick campaign that rapidly expanded both turnover and stated earnings. Since 2008, revenue has more than doubled from \$US1.91 billion (\$A2.14 billion) to \$US5.06 billion last year. Profit after tax rose from \$US97 million to \$US261 million in the same period.

But a new share analysis by US firm, Prescience Point, has cast doubt over the reliability of these figures and LKQ's business model.

More disturbing for Suncorp is that the analysis also casts doubt on the leadership quality of the people who founded LKQ, and who have behind them a series of failed companies that were also built entirely, or partly, by acquiring several or many small companies.

Three of the people associated with LKQ have less than exemplary careers of company promotion behind them. They are LKQ founding backer, Wayne Huizenga, LKQ founding backer and director, Dean Buntrock, and LKQ founder, the late Donald Flynn.

All three were reportedly involved in the running of a company called Waste

Management, which bought many garbage collection companies, starting in 1968, to become the largest collector of garbage in the US and, ultimately, the world.

In 1976, the US stockmarket policeman, the Securities and Exchange Commission (SEC), alleged that Huizenga had been involved in disguising unlawful political contributions using dump fees skimmed off by Waste Management.

Huizenga left the company in 1984. Buntrock remained chief executive (CEO) and Flynn chief financial officer (CFO) until 1996 and 1997.

In 1997, according to the Prescience Point report, the Waste Management board instigated a probe that discovered there had been fraudulent accounting between 1992 and 1997 that resulted in the inflation of asset values and pre-tax earnings. It was found earnings had been overstated by \$US1.7 billion over that period.

Waste Management was forced to take a \$US3.8 billion extraordinary loss and the next year became part of USA Waste Services Inc.

In the aftermath, the SEC claimed that Buntrock was “the driving force behind the fraud” and that Waste Management directors had used “a multitude of improper accounting practices” to inflate earnings.

The case was settled when the accused paid a settlement of \$US30.8 million to the SEC.

The three executives had more success with their next venture, Blockbuster Entertainment, which they expanded from 35 stores in 1987 to 3700 in 1994, when Blockbuster was sold for \$US8.4 billion.

Before the Blockbuster sale, Flynn had bought a controlling interest in children’s playground operator, Discovery Zone. A year later in 1993, and after Blockbuster took a significant shareholding, Discovery Zone was floated to the public.

Late in 1994, three legal suits were filed against Flynn and other Discovery Zone directors alleging they had used irregular accounting practices to inflate Discovery Zone’s share price. The suits, which had been consolidated into one, were dismissed in March 1996 when Discovery Zone went into Chapter 11 bankruptcy.

Huizenga, Buntrock and Flynn then became investors in Boston Chicken, a company owned by Scott Beck, the son of Lawrence Beck, who had been a co-founder of Waste Management back in 1976.

Boston Chicken went from one store in 1992 to 534 owned and franchised stores across the US by 1994 and expansion was forecast to continue. But, by 1998, Boston Chicken posted a loss of \$US437 million and filed for bankruptcy. Prescience Point claims poor store economics had been masked by including investment income in revenues.

Apart from Blockbuster, Huizenga’s highest-profile company was AutoNation, which started out as a waste disposal company called Republic Industries.

After he gained control in 1995, Republic started a massive takeover campaign acquiring hundreds of franchised and used car dealerships across the US. In one year it went from one dealership to 270 by the end of 1997.

It also acquired the newly formed AutoNation from Huizenga and Steven Berrard, who had also been at Blockbuster and Discovery Zone. AutoNation’s plan was to establish a nationwide chain of used vehicle megastores with at least 1,000 vehicles on the lot.

Republic issued shares worth \$US250 million for AutoNation, which did not have a single outlet at that time. By the time the deal was completed, AutoNation shares had risen in value and the deal was worth \$US643 million.

Republic's shares had risen from \$US2 each when Huizenga bought in to a peak of \$US44 in January 1997, valuing the company at \$US12 billion. But earnings did not grow and the share price sank to \$US5 by 2000, with the loss of \$US10 billion in shareholder value.

Huizenga and Berrard had stepped down in 1999 and a new and independent CEO, Mike Jackson, was appointed. He immediately spun-off the car rental business and three months later killed the idea of used vehicle megastores.

AutoNation has since been stabilised and is now the largest automotive retailer in the US. The share price has recovered to \$US53.

Before Huizenga and Berrard stepped down from AutoNation, that company invested in a new venture, LKQ Corporation, which was being promoted by Huizenga and Flynn.

LKQ would set out to acquire many smaller companies to secure a major position in vehicle wrecking and the supply of used parts.

The strategy has not been as successful as hoped for, although LKQ is still trading. Prescience Point researchers claim that acquisitions are inherently flattering for profits and cash flows from operations, because the cost of the acquisition goes through the investing section of the Cash Flow Statement and is not subtracted from operating cash flow.

But, once the inventory is sold and needs to be replaced, the true picture of profit margin emerges. A company needs to keep making more and more acquisitions to maintain profit "growth".

Prescience Point says LKQ's cash flow from operations has been negative in eight of the last nine years. It says LKQ may be engaging in aggressive accounting to engineer annual profits.

If LKQ shareholders in the US are concerned about the leadership quality of the executives controlling the company, they should also be worried about the company's business model and the competition it faces.

It appears one of the world's largest car makers, the newly profitable General Motors, is coming after the company and other providers of non-genuine and recycled parts. Mazda has a similar program.

GM's Bump the Competition program is a very aggressive price-matching program where GM asks its franchised dealers to sell new parts to repairers at a price 33 per cent below what LKQ/Keystone charges. GM then reimburses the dealer for the loss made selling the part to the repairer and also pays a 14 per cent margin to the dealer.

Mazda has a similar program, where it guarantees to match any price charged by a supplier of non-genuine parts.

These programs undermine LKQ's basic business plan, which is to provide cheaper parts to repairers. Combined with LKQ's apparent inability to generate positive cash flow, LKQ may find it difficult to maintain its stated earnings.

Suncorp may do well to reconsider the plan to get into bed with LKQ.

Quite apart from being a partnership with a company whose earnings may not be as secure as a first glance might indicate, there is the possibility of a change in its public image.

The founders of LKQ, Huizenga, Buntrock and the late Flynn, have colourful corporate histories which have, in the past, attracted the attention of the US corporate watchdog, the SEC.

Suncorp may find it awkward explaining to shareholders how Suncorp came to invest millions of shareholder dollars with a business partner that has such a colourful background. And that explanation could generate a lot of headlines.

End of Article

### **The Prescience Point Market Analysis of LKQ - Devastating**

US market analysts Prescience Point recently completed an independent review of LKQ titled “Cashless Clunker” with the recommendation “Strong Sell”.

Prescience’s Key Findings were:

1. **LKQ is An Ineffective Roll-up:** The Company has generated no cumulative free cash flow adjusted for acquisitions and is becoming increasingly dependent on external capital to perpetuate the illusion of GAAP profits, LKQ will need larger and larger targets to keep the “Growth Game” alive.
2. **Caught in a Massive Margin Squeeze:** Gross margins are in Persistent Decline, and inventory accounting methods are likely blunting the true problems. North American organic growth very likely to be overstated and not reconcilable to our research.
3. **Problems with the New Growth Story:** To divert attention from its North American problems LKQ bolted to Europe in hopes of spinning a new growth story, our research suggests LKQ is already facing problems and quickly scrambling to cover.
4. **Dramatic Overvaluation:** too aftermarket auto, recycling and industrial distributors, and supported by Sell-Side Analysts failing to question assumptions and not considering the fundamental problems facing the Company.
5. **Previous Accounting Fraud and Failures:** at Waste Management/Discovery Zone associated with numerous members of the management team have cost shareholders billions of lost \$’s in aggressive roll-up strategies.

### **VACC Conclusion**

**The VACC submits to the Committee that the LKQ Suncorp joint venture will lead to a substantial lessening of competition in the smash repair industry;  
That this substantial lessening of competition will have a devastating impact on the independent family small business smash repairers;  
That this will in turn threaten the jobs of the 20,000 employers who work in the business of our more than 5,000 members;  
That the LKQ deal will give Suncorp-LKQ a virtual monopoly in the smash repair industry with the ability to set prices without competition; and  
That LKQ’s chequered corporate history in the US raises questions about whether it should be allowed to assume such a dominant market position in the Australian smash repair market.**

The VACC thanks the Committee for the opportunity to provide this case study as an addendum to the AMIF submission. We hope you find it of value. Representatives of the VACC would be happy to meet with the Committee through AMIF.

**Appendix A:** Sources and research notes:

**Appendix B:** LKQ: History & Acquisitions

**Appendix C:** Potential Downside Risks to LKQ’s Business

**Appendix D:** LKQ Ownership Structure

**Appendix E:** LKQ Background



## **Appendix A: Competition Inquiry Submission**

### **Sources and research notes:**

The VACC research paper referred to in this submission was produced using information that is publically available.

It was conducted with the aim of preparing participants in the Retail Automotive Industry for the arrival of a global sized auto parts and recycling competitor LKQ.

LKQ will enter the Australian market via a joint venture with Suncorp Insurance Group in 2014.

1. LKQ Corporation 2012 Annual report <http://phx.corporate-ir.net/phoenix.zhtml?c=147311&p=irol-reportsAnnual>
  2. Manufacturers Monthly 25 July 2013 'Australia's automotive aftermarket industry remains optimistic' <http://www.manmonthly.com.au/news/australia-s-automotive-aftermarket-industry-remain>
  3. PRNewswire 18 July 2013 Frost & Sullivan: Australian Automotive Aftermarket Industry Headed Towards Consolidation In The Future <http://www.prnewswire.com/news-releases/frost--sullivan-australian-automotive-aftermarket-industry-headed-towards-consolidation-in-the-future-215947201.html>
  4. Aftermarketjobs.com 23 June 2013 'As the Economy Trends Upwards So Does the Automotive Aftermarket'
  5. [http://www.aftermarketjobs.com/Blog/115154/as\\_the\\_economy\\_trends\\_upwards\\_so\\_does\\_the\\_automotive\\_aftermarket.aspx](http://www.aftermarketjobs.com/Blog/115154/as_the_economy_trends_upwards_so_does_the_automotive_aftermarket.aspx)
  6. NASDAQ <http://www.nasdaq.com/symbol/lkq>
  7. BodyshopBusiness.com 18 February 2013 'Oklahoma Anti-Aftermarket Parts Bill Pulled After Strong Lobby Effort from LKQ, Remy International' [http://www.bodyshopbusiness.com/Article/110249/oklahoma\\_antiaftermarket\\_parts\\_bill\\_pulled\\_after\\_strong\\_lobby\\_effort\\_from\\_lkq\\_remy\\_international.aspx](http://www.bodyshopbusiness.com/Article/110249/oklahoma_antiaftermarket_parts_bill_pulled_after_strong_lobby_effort_from_lkq_remy_international.aspx)
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## **Appendix B: VACC Submission Competition Inquiry**

### **LKQ: History & acquisitions**

- LKQ was founded in 1998 with the purchase of Triplett Automotive Recycling of Akron, Ohio in the US. (Originally founded by garbage hauler Waste Management which later in 1998 merged with USA Waste Services. On Jan. 29, 1998, Waste Management admitted it had overstated earnings by \$1.3 billion. A stock-price collapse and SEC charges followed. None of LKQ's founders were implicated in the scandal.)
- LKQ has since amassed over 150 acquisitions consisting of aftermarket, recycled, refurbished, and remanufactured product suppliers and manufacturers. LKQ also expanded into the self-service retail business
- 23rd Feb 2004--LKQ acquired Global Trade Alliance, Inc., one of the largest suppliers of aftermarket collision automotive replacement parts in the Midwest. LKQ also acquired 2 salvage businesses in 2004
- During 2005, 6 business acquisitions were completed by LKQ
- 3rd Jan 2006 LKQ completes acquisition of Fit-Rite Body Parts and its affiliates that include Accu-Parts, B & D Automotive International, Pennsylvania Collision Parts and Fit Master Body Parts.
- 1st Feb 2006 LKQ acquires Transwheel Corporation, an aluminium alloy wheel refurbishing and distribution business
- 5th June 2006 LKQ acquired an aftermarket business Global Automotive Parts, and two recycled parts businesses
- 10th July 2006 LKQ acquires several recycled parts businesses
- 4th June 2007, LKQ acquires Dominion Auto Recycling near Toronto, Canada. Dominion serves the professional repair market
- 9th July 2007 LKQ acquires Pintendre Autos Inc- a recycled parts business near Quebec City, Canada. Pintendre Autos serves the professional repair market for cars, heavy trucks and light duty vehicles.
- Significant acquisition in October 2007 was the US Keystone Automotive Industries, Inc.
- 26th August 2008 LKQ acquires Pick-Your-Part Auto Wrecking, an auto recycler with nine recycling locations in California.
- 9th October 2008 LKQ acquires Automotive Rebuilders Supply Co., Inc., (ARSCO), a heavy-duty truck recycled parts business in Chicago
- 21st October 2008 LKQ acquires Goody's Truck Parts, Inc., a heavy duty truck recycled parts business in Ohio
- On 1st April 2009 A settlement between Ford Motor Company and LKQ Corporation was reached after litigation filed by Ford Motor Company to protect its design patents on genuine Ford collision parts. LKQ will not challenge the validity and enforceability of Ford's design patents during the term of the agreement.
- 2nd October 2009 LKQ acquired Greenleaf Auto Recyclers, LLC ("Greenleaf") from Schnitzer Steel Industries, Inc.
- On 2nd November 2010, LKQ acquired
  - Cross Canada - a leading aftermarket parts distributor to the collision industry with operations in five Canadian provinces: Alberta, British Columbia, Manitoba, Ontario and Saskatchewan;
  - PROformance Power Train -- an engine remanufacturer with production facilities in Springfield, Missouri;
  - SPI Distribution - an aftermarket heating and cooling system parts distributor that specializes in radiators, air coolers and other related parts;
  - Best Bumper - a large bumper remanufacturing facility in the Dallas, Texas
  - Wholesale automotive recycling business serving the Norfolk and Virginia Beach, Virginia markets;
  - Self-service retail recycling operation in Denver, Colorado
- On 17th May 2011, LKQ Corporation signed to acquire AkzoNobel Coatings Inc.'s U.S. paint distribution business consisting of 40 locations.

- In October 2011, LKQ expanded operations into the European automotive aftermarket business by acquiring Euro Car Parts Holdings Limited ("ECP"). As of December 31, 2012, ECP operated out of 130 branches.
- In 2012, LKQ made 30 acquisitions in North America, including 22 wholesale businesses and eight self-service retail operations. These acquisitions enabled LKQ to expand its geographic presence and enter new markets.
- As of December 31, 2012, LKQ acquired an aftermarket product distributor in the U.K. and a paint distribution business in Canada
- On 1st May 2013 LKQ C finalised the acquisition of Sator Beheer ("Sator"). Sator is the market leading distributor of automotive aftermarket parts in the Netherlands, Belgium, Luxembourg and Northern France. Sator is the parent company of eight operating subsidiaries. The group has over 800 employees serving a diverse base of over 6,000 customers and offering a broad product line of over 150,000 SKUs from eleven distribution centres.
- On 6th August 2013 LKQ Corporation acquired five paint distributors with a total of 26 locations throughout the United Kingdom. The acquired distributors include Bee Bee Refinishing Supplies Halstead, JCA Coatings, Milton Keynes Paint & Equipment, Premier Paints and Sinemaster Motor Factors. This expands Euro Car Parts collision parts business.
- On 20 August 2013 LKQ Corporation announced a joint venture with Suncorp Group to develop an alternative auto parts business in Australia and New Zealand. Suncorp Group is Australia's largest insurer (measured by premiums) and New Zealand's second largest general insurance company. LKQ will supply aftermarket parts to the joint venture and will establish automotive parts recycling operations. Suncorp will supply salvage vehicles and establish relationships with repair shops as customers



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## **Potential downside risks to LKQ's business**

**The following words below regarding risk are quoted directly from LKQ's Annual 2012 Report**

### **Environmental legislation**

Environmental laws are complex, change frequently and have tended to become more stringent over time. Accordingly, environmental laws may change or become more stringent in the future in a manner that could have a material adverse effect on LKQ's business.

### **US Anti-Car Theft Act**

In 1992, Congress enacted the Anti-Car Theft Act to deter trafficking in stolen vehicles. The law allows the implementation of an electronic system to track and monitor vehicle identification numbers and major automotive parts. In January 2009, the U.S. Department of Justice implemented part of the system to track and monitor vehicle identification numbers. Tracking and monitoring major automotive parts would require various entities, including automotive parts recyclers like LKQ, to inspect salvage vehicles to collect the part number for any "covered major part."

If this system is fully implemented, the requirement to collect information would place substantial burdens on vehicle recyclers, including LKQ. It would place similar burdens on repair shops, which may further discourage the use by such shops of recycled products.

### **US Legislation Affecting Automotive Repair Parts**

Most states have laws relating to the use of aftermarket products in motor vehicle collision repair work.

Some jurisdictions have laws that regulate the sale of certain recycled products that LKQ provide, such as airbags. More laws of this kind may be enacted in the future. An increase in legislation with prohibitions or restrictions that is more severe than current laws could have a material adverse impact on LKQ's business.

Also, Congress could enact federal legislation restricting the use of aftermarket and recycled automotive products used in the course of collision repair. If economic conditions in the US and other jurisdictions decline, this will impact negatively on LKQ's business. Intense competition from local, national, international, and internet-based vehicle products providers OEMs have conducted price reductions on specific products to match the lower prices of alternative products. If such price reductions become widespread, this could have a material adverse impact on LKQ's business as it is believed that in excess of 50% of collision parts by dollar amount are supplied by OEMs

### **Claims by OEMs relating to aftermarket products**

OEMs have claimed intellectual property infringements against manufacturers and distributors of aftermarket products to restrict or eliminate the sale of aftermarket products that are the subject of the claims. The OEMs have brought claims to the federal court and with the U.S. International Trade Commission

If OEMs are successful with intellectual property infringement claims, LKQ could be restricted or prohibited from selling certain aftermarket products,

Further, aftermarket products certifying organizations may revoke the certification of parts that are the subject of the claims. Lack of certification may negatively impact LKQ because many major insurance companies recommend or require the use of aftermarket products only if they have been certified by an independent certifying organization.

LKQ rely heavily upon insurance companies to promote the usage of alternative parts. Potential law suits e.g. product liability claims, may view the use of alternative parts as inferior in damaged vehicle repair. Such legal outcomes could encourage insurance companies to reduce or eliminate their use of aftermarket products

On 18th February 2013, it was reported that Oklahoma Senate Bill 1051, which would have required an insurer to disclose to the consumer, in writing, if an aftermarket emission, safety

or crash part is to be used in a repair and also obtain written consent from car owners, was pulled from consideration on Feb. 13 by Dan Newberry, chairman of the Oklahoma Senate Business and Commerce Committee. Aftermarket industry members began lobbying almost immediately after the introduction of the bill on Jan. 17. The bill had been scheduled for a Feb. 14 hearing

Adverse changes in suppliers or auction companies' relationships could increase LKQ's expenses and limit their ability to service customers

- A loss of any one supplier could have a material adverse effect until alternative suppliers are located and have commenced providing products.
- Uncertainty regarding future relations between China, Japan and Taiwan
- As a substantial sales volume involves products manufactured from sheet metal, if sheet metal becomes unavailable or is only available at higher prices, (which may not be able to be passed on to customers), business may be negatively impacted
- Limited supply of salvage vehicles in the U.S. As LKQ grows and its demand for salvage vehicles increases, the costs of these incremental vehicles could be higher
- Most salvage and a portion of LKQ's self-service inventory are obtained from vehicles offered at salvage auctions. LKQ do not typically have contracts with any auction company. If an auction company prohibited LKQ from participating in its auctions, began competing with LKQ, or significantly raised its fees, higher costs or the resulting potential inability to service customers could negatively impact LKQ

**Fluctuations in the prices of metals or shipping costs could adversely affect LKQ financial results**

**Governmental agencies may refuse to grant or renew LKQ operating licenses and permits If the number of vehicles involved in accidents or the number of cars being repaired declines**

Declines in the number of vehicle accidents or repairs can be due to:

- An increase in fuel prices may cause the number of vehicles on the road to decline, and the number of miles driven to decline. If motorists seek alternative transportation, this also could lead to a decline in accidents
- Less vehicle sales could result in a reduction in the number of vehicles on the road and consequently fewer vehicles involved in accidents
- Mild weather conditions tend to result in a decrease of vehicle accidents
- When OEMs develop or are mandated by law to install new accident avoidance systems, accident numbers and severity could decrease
- The average age of vehicles has been increasing, and insurance companies may find it uneconomical to repair older vehicles

**As LKQ operates in many foreign jurisdictions, LKQ is exposed to foreign exchange and other risks**

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# LKQ Ownership summary Top Holders

	Shares Held	% O/S	Share Change	Filing Date
BlackRock Institutional Trust Company, N.A.	15,324,141	5.1	66,959	06/30/13
The Vanguard Group, Inc.	14,151,915	4.7	61,452	06/30/13
Fidelity Management & Research Company	11,352,587	3.8	-935,225	06/30/13
Baron Capital Management, Inc.	10,829,518	3.6	28,337	06/30/13
Artisan Partners Limited Partnership	10,823,200	3.6	-148,200	06/30/13
Atlanta Capital Management Company, L.L.C.	10,333,418	3.4	-926,493	06/30/13
State Street Global Advisors (US)	9,798,065	3.3	43,898	06/30/13
Cantillon Capital Management LLC	7,274,086	2.4	44,000	06/30/13
Wells Capital Management Inc.	6,605,876	2.2	2,899,126	06/30/13
Munder Capital Management	5,831,911	1.9	-162,597	06/30/13

## LKQ Ownership summary Top Holders: Mutual Funds

	Shares	% O/S	Share Change	Filing Date
Baron Growth Fund	8,375,000	2.8	0	06/30/13
Eaton Vance-Atlanta				
Capital SMID-Cap Fund	7,095,068	2.4	73,875	06/30/13
Artisan Mid Cap Fund	5,220,540	1.7	-48,600	06/30/13
Fidelity Contrafund	4,647,218	1.6	0	08/31/13
iShares Core S&P Mid-Cap ETF	4,125,019	1.4	533,478	08/31/13
Vanguard Mid-Cap Index Fund	4,045,991	1.4	37,946	08/31/13
Statens Pensjonsfond Utland	4,031,191	1.3	1,903,005	12/31/12
Munder Mid-Cap Core				
Growth Fund	3,987,000	1.3	-69,600	06/30/13
Vanguard Total Stock Market Index Fund	3,875,092	1.3	19,137	08/31/13
Halifax International Growth	3,173,780	1.1	0	08/31/12



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#### **LKQ Background**

##### **LKQ specialise in:**

- Recycled OE (Original Equipment) auto and truck parts
- New Keystone Automotive parts
- Reconditioned OE replacement parts
- Remanufactured engines and transmissions
- Rebuilt OE replacement parts
- Heavy truck and equipment parts and used trucks
- Paint and body shop supplies and equipment
- Salvage vehicle disposal, national part purchase programs and insurer services
- Bulk Sales

#### **LKQ Subsidiaries**

Keystone Automotive Industries, Inc.

##### **LKQ brands**

- ☐ Platinum Plus
- ☐ Value Line
- ☐ Goodmark industries
- ☐ Diamond Standard
- ☐ Key Kool
- ☐ Original Plus
- ☐ Goodmark Restoration Parts
- ☐ ProEFX accessories
- ☐ Keystone Quick Restyling accessories
- ☐ Keystone Platinum Refinish Series

#### **LKQ Key Competitors**

Delphi Automotive Systems \$15,519(mill) year ended 31st Dec 2012

Federal-Mogul\$911 (mill) year ended 31st Dec 2012

U.S. Auto Parts \$304,017(mill) fiscal year 2012

AutoZone Revenue \$ 8.603 billion (FY 2012)

O'Reilly Automotive Sales for the second quarter ended June 30, 2013, increased \$152 million, or 10%, to \$1.71 billion

Genuine Parts Co Net sales 2012 \$13,013,868,000

Advance Auto Parts \$6,205.0 (mill) during fiscal 2012

#### **LKQ Corporation Stock Quote & Summary Data**

LKQ as of 17 Oct 2013 \$31.94 0.38

1.18%

#### **LKQ Market capitalisation**

\$ 9,585,825,134

#### **LKQ employees**

As of December 31, 2012, LKQ employed approximately 20,300 employees

