2 The market for the supply of specialist goods and services

2.1. The market specified for investigation in our inquiry is the supply in the United Kingdom of 'the reference services', ie the services of accepting advertisements for publication in specialist magazines intended for campers, climbers and walkers. One of the matters we are called upon to investigate, should we find that a monopoly situation exists in the supply of the reference services, is the effect on the public interest of 'the reference policy', ie a refusal to supply the reference services to persons who wish to place advertisements as to the price of the goods or services advertised.

2.2. To understand the effects of the reference policy, and also its origin, it is necessary to look beyond the market specified for investigation, and to examine the market for the supply of specialist goods for campers, climbers and walkers.

2.3. We do not consider it necessary to examine the market for the supply of specialist services. The advertisements for services are mainly for specialist holidays, training courses, accommodation and camp sites. As explained in Chapter 3, advertisements for services make up less than 10 per cent of the total market for reference services, and the reference policy has not applied in practice to advertisements for services.

2.4. The OFT report gave the reasons for the introduction of Holmes McDougall's advertising policy. In brief, it was introduced in response to pressure by manufacturers and retailers of specialist goods for campers, climbers and walkers. The manufacturers and retailers exerting pressure were concerned at the publication of advertisements by certain mail order firms containing price information for goods at prices significantly lower than those at which the goods were offered in retail shops. Manufacturers and retailers of the specialist goods were able to exert considerable pressure. They provide most of the advertising revenue of Holmes McDougall's specialist magazines (and, as our own survey shows, of the other specialist magazines intended for campers, climbers and walkers). While the value of advertising from the discount mail order firms was very small compared with the value of the advertising from the companies bringing the pressure, specialist goods shops were (and continue to be) a significant channel of circulation for some of the magazines.

2.5. As Chapter 5 shows, our evidence is that there is continued general support for the reference policy among manufacturers and retailers. Our surveys produced some evidence from manufacturers and retailers of their contacts with the specialist magazines in connection with the reference policy. Several told us that they told specialist magazines that they objected to advertisements with prices. They generally did not identify the magazines. Four retailers told the magazines that they would not advertise with them if they accepted advertisements with prices, and one of these also said that it would stop selling the magazines. A few retailers put pressure on manufacturers to try and influence the publishers; one told manufacturers that it would not stock items that were being advertised at low prices. Two of the three publishers who have confirmed that they follow the reference policy told us that pressure had been exerted on them to do so.

2.6. Publishers following the reference policy have told us that since 1985 they have not received any requests to publish advertisements containing prices. After *High* included a loose insert showing prices for a mail order company in subscription copies during 1985, High Magazine received a very adverse reaction from manufacturers and retailers.

Surveys of the market for goods

2.7. Much of our knowledge of the market for goods comes from two surveys which we undertook; the first survey, begun in April 1987, was of manufacturers and retailers. It was concerned with turnover, advertising, range of goods supplied and the effects of the reference policy. A list was drawn up based on names of companies provided by the OFT, examination of names of advertisers in the specialist magazines and examination of the relevant sections of the classified Yellow Pages for each area of the United Kingdom. Questionnaires were sent to all those retailers who appeared to have more than one outlet and to a random sample of other retailers. We sent out 284 questionnaires and received completed questionnaires from 84 retailers and 45 manufacturers, an overall response rate of 45 per cent.

2.8. Our second sample survey was conducted in July 1987. This concerned prices and was similar to the survey conducted by the OFT in April 1985 and published in Chapter 6 of the OFT report. The items of equipment covered in our survey varied from those of the OFT survey only to take account of changes in availability on the advice of two leading retailers. The questionnaires were sent to 79 retailers. The sample consisted of all the large retailers and mail order companies and a random selection of others. Forty-six replies were received, a response rate of 58 per cent.

The market for goods

2.9. In considering what should be included in the market for goods there are obviously difficulties in the case of less specialised items of footwear and clothing. These can be used for general wear and are sometimes sold in sports shops or department stores as well as specialist shops for campers, climbers and walkers. Our survey included sports shops, and in our questionnaire we asked respondents who did not deal wholly in specialist goods intended for campers, climbers and walkers to give an estimate of the size of this business. This makes for subjective judgments but we have taken this into account in the range we have given to our central estimate of the total market. The purpose of the estimate is to give a broad idea of the size of the market for goods.

2.10. We estimate total retail expenditure in the market in 1986 to be about £100 million. Our figure can be compared with an estimate from the market intelligence company Mintel. Mintel's figure was £81 million, although Mintel emphasised that the scarcity of reliable statistics hampered the analysis. We have not been able to make any estimates for the different types of goods. Mintel broke down its total into the different types of goods which are shown below (with 1984 estimates added for comparative purposes).

TABLE 2.1 **Supplies of different types of goods**

		£ million
	1984	*1986*
Ridge tents	15	16
Trailer tents	8	7
Frame tents	4	5
All tents	27	28
Gas cylinders	11	12
Sleeping bags	8	9
Cookers	6	6
Furniture	5	5
Other (including footwear, clothing, ground sheets etc)	20	21
Total	77	81

Source: Mintel.

These estimates were built up in a different way from our own and it is not clear whether the 'Other' category includes all items of camping, climbing and walking footwear and clothing.

Growth in total market

2.11. In replies to our survey, firms were often only able to give turnover figures for 1986, the latest year. It was not possible therefore to make an estimate of growth in the total market from our survey data. However, the Mintel figures imply growth in money terms over a two-year period of about 2 per cent per annum. In real terms this represents a slight decline.

The main types of specialist goods and the markets for them

2.12. The goods cover a wide range in technical sophistication and quality, corresponding to purchasers' activities, which range from top-level climbing to gentle strolls. Climbing equipment and footwear is the most specialist, and designed for a particular use only. Ropes, harnesses, pegs and karabiners, helmets and 'sticky-soled' rock climbing shoes, ice axes, crampons and mountain boots are all equipment upon whose quality the lives of climbers can depend.

2.13. Safety standards for climbing equipment are described in paragraph 5.25. Specialist climbing equipment is sold by shops and companies which also sell more generalist equipment described below. It would not be economic for any shop to specialise in climbing equipment alone. Some specialised climbing equipment is sold through mail order.

2.14. The safety of mountaineering equipment depends not only on its standard but also upon the choice of the appropriate equipment, its use, and proper fitting. It is clear from the evidence that the specialist shops fulfil an important role in advising customers in all these respects. We believe that they generally have at least one member of staff who can give expert advice from personal experience. Some of the mail order catalogues we have seen contain some written advice on equipment and fitting but this may not be as useful as personal advice in a shop. The evidence we have of the causes of walking and climbing accidents is given in paragraph 5.27. It suggests that bad equipment and clothing is a contributory factor, and in the view of the British Mountaineering Council (BMC) bad equipment is the most serious safety problem in mountaineering and hill walking. We have no evidence of the extent to which bad choice and bad fitting of equipment causes accidents for climbers not competent to safeguard themselves when choosing and fitting equipment. There is much educational and advisory activity carried out by the BMC and others on the potential dangers of activities in the hills and mountains. For climbing, there is a large network of clubs and societies through which beginners can be safely introduced to the sport.

2.15. It seems that purchasers of specialist climbing equipment are not particularly price-sensitive although many of them are young and not high earners. The technical performance of equipment is more important than price. Product assessment articles feature prominently in climbing magazines and are a means by which technical advances in equipment become quickly publicised. A case was quoted to us of the introduction of a Spanish rock climbing boot which was a significant improvement on the previous best models, but was more expensive. It quickly took a large share of the market. However, there is customer responsiveness to price in the retail market in the sense that if the required piece of equipment can be bought cheaper from one source than another then customers are quite ready to buy from the cheaper source. Many climbing clubs negotiate discounts for members.

2.16. Another category of goods consists of equipment often used in climbing (especially mountain expeditions) but also used in severe weather camping and walking. This category includes such items as sleeping bags, tents and waterproof and cold weather clothing. Again these goods have to be dependable in life-threatening conditions. There is a good deal of research and development and innovation in such goods. An example is the development of 'breathable fabric', such as Gore-tex, which combines waterproof qualities with permeability to body evaporation.

2.17. The goods we have described include top-of-the-range items for all needs. Other goods used by campers, climbers and walkers need not be made to the same high specifications as the top-of-the-range but are adequate for walking and camping in less severe terrain and climate. Such goods are also bought by those active in other outdoor pastimes or jobs.

2.18. For such goods there are not the demanding safety considerations needed for items of climbing equipment. Nevertheless the performance of waterproof clothing and footwear is important for safety, and also for physical comfort and enjoyment. Advice on the different types of equipment and fitting of footwear is therefore important. Again, articles assessing equipment in the specialist magazines are popular with readers.

2.19. It is probable that demand for these products is more price-sensitive than for specialist climbing equipment, especially at the end of the market catering for less vigorous walking. Customers are more likely to consider the trade-off between price and quality if their purchases do not have to withstand severe conditions. But there are indications that the more serious walkers and campers give a great deal of weight to quality. The earnings of this group are probably higher than average. This does not imply that customers are not responsive to price differences in the retail sector. Having made a choice of the brand product which they require they have an obvious incentive to obtain it at the lowest price available, which is often through mail order. Experienced walkers and campers may also base their purchasing choices on personal experience and reading the equipment assessment articles in the specialist magazines. This makes the advisory role of the specialist shops less important relative to the price advantages of mail order purchasing. This may be particularly true of items which do not need fitting, for example tents and cooking equipment. Indirect evidence of customers' willingness to search around for the best price is the continued high levels of business of the large mail order companies which have thrived through the development of comprehensive colour catalogues containing prices, despite the fact that customers have to telephone or send off for them. The best of these catalogues contain advice on fitting and use of equipment and one mail order company has a Customer Advisory Service manned by various experts.

2.20. There are two extremes to camping; camping in the wild often entails the use of the lightweight equipment used on climbing expeditions, and at the other extreme there is camping on organised sites, often as a form of family holiday. This usually entails the use of large frame tents, camping furniture, gas cooking equipment and motorised transport. Our evidence suggests that advertising for goods used for these gentler pursuits is least affected by the reference policy. It tends to be placed in the specialist magazines which do not follow the reference policy and in other magazines with no restrictions on prices in advertisements.

Structure of the manufacturing industry

2.21. We were able to make an estimate of the degree of concentration among manufacturers from responses to our survey. It appears that three large United Kingdom manufacturers supply between them over a third of United Kingdom manufactured goods in this market; the top 12 supply about three-quarters of the market. This degree of concentration is greater than in the retail sector, so the manufacturers have greater power in bargaining with retailers and compared with retailers their advertising expenditure is both larger in aggregate and more concentrated in a smaller number of firms (see Chapter 3). Some of the larger retailers commission products from manufacturers for sale under the retailers' own-brand, but these products do not have a significant part of the overall United Kingdom market.

2.22. Some manufacturers also act as agents for overseas brands. There is a small but significant amount of imports, for example tents from France and the Far East and boots from Italy.

Structure of the retail trade

2.23. Specialist goods are sold in a wide variety of outlets, from specialist shops to sports shops, general outfitters and department stores. The OFT estimated at the time of their report that there were about 2,000 shops which sold at least some specialist goods. We have seen higher figures, but from our survey we estimate that there are about 230 specialist retail companies with perhaps 320 shops. These can be categorised according to their number of outlets as follows:

(*a*) One large group, Blacks, with about 40 shops, the Scout Shops with 20 and YHA with ten. (All three of these suppliers sell substantial amounts of products other than camping, climbing and walking equipment.)

(*b*) About 20 companies with two or more shops, owning about 50 shops in total.

(*c*) About 200 specialist companies with a single shop.

Mail order companies

2.24. We estimate that there are at least 31 companies, including the three large groups mentioned above, which have a mail order side to their business. In our survey ten manufacturers reported mail order business, and that they sold relatively small amounts of their products direct to the public. The other mail order respondents were retailers. Our survey revealed no retail companies which were exclusively mail order businesses, all had at least one retail shop as well.

2.25. Three of the retail firms reported mail order turnover of over £100,000. Two had a substantial amount of 'contract business', namely bulk business done with clubs, schools and other organisations. The mail order business of all three firms amounted to about £2·5 million, making up over 85 per cent of the mail order business reported to us. About half of the other firms which gave us figures reported an annual figure for mail order business of under £10,000. These figures indicate a high degree of concentration in the mail order sector.

2.26. Our estimate of the total turnover in mail order business is that it is about £4 to £5 million or 4 to 5 per cent of the total United Kingdom market.

Retailers analysed by turnover

2.27. Analysis of the survey returns suggested that there were some 38 retailers with annual turnover in excess of £100,000. The other respondents to the survey had annual turnover below this figure. It is likely that most of those not sampled in the survey, or not replying to it, have turnover at the lower end of the scale.

2.28. The smaller specialist shops are often run by climbing and walking enthusiasts. Given the size of the turnover of many existing shops, it appears that there are no substantial barriers to entry into the retail sector.

2.29. The retail shops of the big companies are situated in large towns. Smaller shops are spread throughout the United Kingdom and tend to be concentrated where there is a great deal of climbing and walking, such as in North Wales, the Lake District and the West Highlands of Scotland.

Wholesale

2.30. Larger retail companies also did some wholesale business, selling products to smaller shops, and there were a few companies specialising in wholesale. However, wholesaling does not play any significant part in the market as a whole.

Price competition in the retail market

2.31. We gathered evidence on price competition through our survey on prices and from the written and spoken evidence of those involved in the trade. In our price survey, we asked retailers to give details of selling price, buying price and number of items sold for a range of products. The choice of products to be included in the survey was made following advice from retailers. The products were intended to be widely available examples of each of a number of pieces of equipment such as waterproofs, boots, sleeping bags and tents. As the list is similar to the list used by the OFT in their 1985 survey, some comparison can be made of price competition over time.

2.32. Our survey showed that on the whole the lowest prices were offered by one small mail order company. On average its prices were 10 per cent lower than those of the large mail order companies and 16 per cent lower than those of the specialist retailers. The large mail order companies' prices, on average, were 6 to 7 per cent lower than those offered by specialist retailers and other mail order companies. The prices offered by the last two groups were similar, but if anything those of the small mail order companies were higher. The volumes sold by the large mail order companies were several times larger than those of the largest of the other retailers, and the prices at which they purchased their products from manufacturers were lower. Thus they had the advantage of lower purchase costs and greater volumes over which to spread overheads. All mail order companies also have retail shops and the same prices were available in their shops as through mail order (apart from post and packing costs).

2.33. The mark-ups (ie percentage added to cost prices by retailers) reported in the price survey ranged from 31 per cent to 68 per cent, 55 per cent being the most common margin. The lowest mark-up was that of a small mail order company. The mark-ups of the large mail order companies were lower than most other retailers. There was no significant difference between the average mark-ups of specialist retailers and the majority of small mail order companies.

2.34. The OFT survey found that the lowest average retail prices were offered by a group of three small mail order companies. At that time, their prices were on average 23 per cent lower than those of the specialist retailers and 14 per cent lower than those of the large mail order companies. In our survey we received a completed questionnaire from only one of the three small mail order companies covered in the OFT survey. The second has gone out of business and we could not trace the third. The company which responded to our survey was the one with the lowest prices, on average, of all respondents. The OFT survey also found that in 1985 the prices of large mail order companies were, on average, 10 per cent lower than those of the specialist retailers (as compared with 6 per cent in our survey).

2.35. This evidence, although based on a limited range of goods, does point to some relaxation of price competition in the last two years. This observation is supported by the narrative evidence of those involved in the trade which is given in Chapter 5.

Competition in the market for goods

2.36. The indications are that the overall market for goods for campers, climbers and walkers is stable or slightly declining, although there may have been growth for certain types of product. Overall demand is probably not particularly responsive to price, except at the lower quality end of the market, but customers are responsive to differences in price for the same products in different retail outlets.

2.37. There are several aspects to competition between the two main types of retailing, namely shops and mail order. Some items need to be fitted, some customers need specialist advice on the spot and some want immediate delivery. The specialist shops have an advantage over mail order in these aspects; this is especially true for shops in areas where outdoor activities take place, since customers more often want items for immediate use. On the other hand, there is likely to be a fair amount of customer responsiveness to price alone. Own-brand products are not significant in the market, many customers are already knowledgeable about the products and not all products need to be fitted. These factors work to the advantage of those mail order companies which are able to undercut the retail shops. It may well be that any increase in price competitiveness could only benefit some retailers at the expense of others as the overall market appears to be static and consumers do respond to differences in price in different retail outlets.

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