

# 6 The retail market

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## Background

6.1. The expansion of the UK music industry in the late 1970s and early 1980s was reflected in a growing retail trade, which almost doubled in value between 1985 and 1989 (see Table 5.3). This was followed by a recession in the industry which was more marked than the general economic recession (see paragraphs 5.8, 5.9 and 5.36). The retailing of recorded music in the UK has become increasingly concentrated in recent years. By 1992 some 55 per cent of retail sales were made by four businesses (W H Smith, Our Price, Woolworths and HMV), the first two of which were under common control. As far as we are aware, this is a higher level of concentration than occurs in any other major country (see paragraphs 6.72 to 6.80 for a comparison with other countries).

## Types of outlet

6.2. Recorded music is now sold in many different kinds of retail outlets-often as part of an entertainment section which also includes videos and computer games. These outlets range from specialist 'superstores' offering more than 100,000 items of CDs, cassettes and vinyl product to petrol stations with one or two racks of cassettes and CDs. The products are sold both over the counter and via direct mail businesses such as record clubs (often referred to as music clubs) and mail order catalogues.

6.3. Retail outlets in this market may be classified as follows:

- (a) specialist multiples;

- (b) non-specialist multiples;
- (c) independent specialists (mainly single units, but including some chains);
- (d) non-traditional outlets; and
- (e) mail order/record clubs.

Table 6.1 gives estimates of the number of outlets in categories (a) to (c) (ie outlets selling over the counter (OTC)) for 1984, 1988 and 1992. It has not been possible to estimate accurately the total number of outlets in category (d), but it is almost certainly significantly greater than the total number of outlets in categories (a) to (c) combined.

TABLE 6.1 Numbers of retail outlets selling records

Retailer type	1984 (Nov)	1988 (Mar)	1992 (Aug)	Percentage changes		
				1984-1988	1988-1992	1984-1992
<i>Specialist multiples</i>						
HMV	37	58	84	+57	+45	+127
Our Price	93	203*	335*	+118	+65	+260
Virgin Retail	37	100*	13*	+170	-87	-65
Total specialist multiples	167	361	432	+116	+20	+159
<i>Non-specialist multiples</i>						
W H Smith Retail	260	277	297†	+7	+7	+14
Woolworths	896	803	781	-10	-3	-13
J Menzies	110	112	170	+2	+52	+55
Boots	275	263	251	-4	-5	-9
Other multiples‡	316	319	319	+1	0	+1
Total non-specialist multiples	1,857	1,774	1,818	-4	+2	-2
<i>Independent specialists§</i>						
Large¶	375	437	126	+17	-71	-66
Medium¶	673	792	347	+18	-56	-48
Small¶	1,159	763	648	-34	-15	-44
Total independent specialists	2,207	1,992	1,121	-10	-44	-49
Other outlets⊘	N/A	N/A	N/A	N/A	N/A	N/A

Source: BPI Handbook compiled from Gallup data, and information from suppliers.

\*70 smaller stores, shown above as belonging to Virgin Retail in 1988, were acquired by Our Price in that year.

†336 according to BPI, but 39 of these do not sell reference products.

‡Includes Littlewoods department stores, Asda and Tesco supermarkets, Martins and Forbuoys newsagents, and EUK's Chart Stop outlets.

§Includes some chains, eg Tower Records, Sam Goody, Anlys.

¶Large = 1,000+ units per week; medium = 500 to 1,000 units per week; small = 100 to 500 units per week.

⊘There are a large number of 'non-traditional' outlets, eg petrol stations, newsagents, convenience stores, ethnic shops, most selling fewer than 100 units per week. This sector is understood to have expanded in recent years. Its size is uncertain but has been estimated by some in the industry to contain as many as 10,000 outlets.

6.4. Changes over time in the numbers of outlets selling records, as shown in Table 6.1, are only a rough guide to developments in the range of choice facing consumers. In recent years most chains have tended to increase the average size of their music stores or the space in their stores that is devoted to records. For example, HMV's average store size increased by almost two-fifths between 1988 and 1993.

### ***Specialist multiples***

6.5. This segment of the market currently comprises HMV, Our Price and Virgin Retail, the first of these being part of the THORN EMI group. Our Price is owned by W H Smith, which, through a joint venture, is also a 50 per cent shareholder in Virgin Retail (but see footnote to paragraph 3.16). For these

businesses, recorded music is the principal product sold, though video cassettes are increasingly important, together with other entertainment products, especially computer games.

6.6. The number of outlets belonging to these chains has greatly increased since 1984, with most of the increase occurring in the period to 1988. We have been told that 1985 was a particularly important year for the music market, with music retailers starting to move to prime high street locations, and with major expansion begun by HMV and Virgin Retail. In 1988 many of the smaller Virgin stores were acquired by Our Price. Specialist stores vary greatly in size and therefore in the range of records which they can offer for sale. Most Virgin outlets are superstores. HMV's outlets range very widely in size from its flagship store in Oxford Street to much smaller outlets, although all of HMV's newer stores are large. Our Price stores are smaller on average than those of HMV and Virgin Retail and offer a narrower range of records.

6.7. Only the superstores are able to accommodate most of the record companies' very large product range. There is therefore considerable competition among record companies to place products in the smaller high street stores. We have been told that products receiving promotional support from record companies, including co-operative advertising between record company and retailer, stand a higher chance of being stocked and prominently displayed, reflecting the anticipated effect on demand of promotion and advertising.

### ***Non-specialist multiples***

6.8. The growing importance in recent years of high street multiple retailers in recorded music is similar to other retail markets. The main non-specialist chains are W H Smith, Woolworths, John Menzies and Boots. W H Smith and John Menzies have substantially increased the numbers of their outlets selling records since 1984. The number of Woolworths stores selling records has declined since 1984 but the prominence given by Woolworths stores to this business and the space devoted to it have increased. Other multiples selling records include newsagents such as Martins and Forbuoys, and supermarkets (a fast-growing sector) such as Tesco and Asda. While sales of recorded music through multiples account for a major share of total sales of recorded music, they usually account for only a fraction of the total range of goods available in these retail outlets. The range of recorded music offered depends more on the floorspace devoted to music than on the size of the store. For many of the non-specialist chains (including Boots and Menzies) recorded music is not regarded as a core product, and is only sold in the larger branches.

6.9. The range of reference products offered by the non-specialist multiples is significantly narrower than that of the specialist chains. Both Woolworths and W H Smith stores tend to have a relatively narrow range, even when compared with the average Our Price store. Table 6.2 shows how outlets of the different chains vary in terms of the numbers of line items stocked.

TABLE 6.2 **Estimated range of reference product line items stocked by retailers**

<i>Retailer</i>	<i>Line items</i>
HMV	10,000-160,000
Virgin Retail	50,000-100,000
Tower	50,000-100,000
Our Price	10,000- 30,000
Woolworths	1,000- 4,000
W H Smith	5,000- 20,000

Source: Retailers.

6.10. Offerings tend to be concentrated on fast-moving titles, typically chart items and compilations and, increasingly, budget-priced items, the range being adjusted by each business to its perceived customer profile. Some concern has been expressed by record companies that further concentration of record retailing in such non-specialist stores could limit consumers' ability to choose from the full repertoire of record company catalogues.

### ***Independent specialists***

6.11. Record companies have emphasized to us the importance of independent specialists for the breaking of new artists. However, the expansion of chains (specialist and non-specialist) in recent years has been at the expense of independent specialist retailers, who usually occupy locations less favourable than those of the chain-owned stores and do not have their buying power.

6.12. The number of independent specialists fell by almost half between 1984 and 1992. The pattern of reductions, however, has changed over the period. Between 1984 and 1988 the number of large and medium specialist retailers rose quite strongly, though this was offset by an even greater fall in the number of small specialists. During 1988 to 1992, however, for much of which period the UK economy was in recession, there were very large falls in the numbers of large and medium-sized specialists (especially the former, which faced the most direct competition from the chains, both in terms of price and breadth of offerings). Numbers of small specialists fell much less in this later period. We were told that this was because they tend to occupy market niches, specializing in particular music genres (dance, hard rock, classical etc) in which they are less vulnerable to competition from the chains.

6.13. Although the number of independent specialists has declined in recent years, some new ones have entered the market. Interesting developments include the entry in 1990 of Musicland (the largest US retailer) with its Sam Goody brand of record stores, with ten outlets. It is too early to judge how the US retailing formula of the Sam Goody stores, which compete particularly against Our Price, will fare in the UK. Another major US retailer, Tower Records, entered the UK market in 1985 and currently has four superstores. Tower, which is a direct competitor to Virgin Retail and HMV, now seems firmly established and continues to expand, if slowly.

### ***Non-traditional outlets***

6.14. Recorded music is also sold in a wide variety of outlets regarded by the industry as 'non-traditional'. These include convenience stores, corner shops, airports, ferries, motorway service stations and petrol stations. We were told by several parties that the number of such outlets, and the importance of sales through them, has increased considerably in importance in recent years. The principal suppliers to such outlets, usually on a rack-jobbing basis, are EUK and Pic-a-Tape, though there are many small suppliers. Because this segment of the market is so fragmented, there are few statistics available for it. However, our discussions with suppliers suggest that there might be up to 10,000 individual outlets, a large proportion of which would be very small, selling fewer than ten items per week.

### ***Mail order and record clubs***

6.15. Direct mail has increased its share of the recorded music market in recent years. Within this segment, we were told, mail order business has been flat, while that of record clubs, accounting for the majority of direct mail selling, has grown quite strongly.

6.16. Record clubs, of which Britannia Music is by far the largest operator, followed by BCA's Music Direct, recruit members as customers and supply them from a select list of titles. Items supplied are usually popular mainstream albums obtained from leading record companies, usually after an agreed interval following the initial release date. This is generally six months, though it can be a longer or shorter period. If, for instance, a record company wishes to run a special sales campaign for a record it may well wish to delay its release to a record club.

6.17. Record clubs' marketing strategy is to persuade their members, by attractive initial offerings, to commit to a minimum level of purchases. We were told that the average record club customer tends to be somewhat older, and from a higher socio-economic category, than the average OTC record purchaser.

6.18. Unlike retail shops, the whole of the country is the catchment area for a record club. Advertising is national and a proportion of a record club's custom will be from purchasers who are either unable, or do not find it convenient, to buy from local shops.

6.19. Conventional mail order companies tend to be much smaller operations. Some companies, such as Reader's Digest, market their own compilations, not available OTC. Others offer customers their expertise in obtaining out-of-stock or rare titles.

## Market shares

6.20. The OTC retail sector for recorded music is currently estimated to account for 88 per cent of total retail sales of recorded music. Of OTC sales, 59 per cent are currently accounted for by five businesses. Of these, W H Smith and Our Price are members of the same group.

6.21. The rest of the retail sector consists of mail order businesses and record clubs. Sales through mail order and clubs are more concentrated, 63 per cent of this segment being accounted for by a single company, Britannia Records. Table 6.3 gives estimates of retail market shares in 1991 and 1992.

TABLE 6.3 Retail market shares (by value)

Retailer	<i>per cent</i>	
	1991	1992
W H Smith	8.3	8.1
Our price	19.0	18.5
Virgin	2.7	4.2
HMV	11.8	13.5
Woolworths	14.1	15.0
Boots	3.1	3.0
Menzies	2.0	1.9
Tower	1.9	2.1
Other OTC retailers	26.4	21.5
Britannia music	7.0	7.7
Other mail order/clubs	<u>3.7</u>	<u>4.5</u>
UK total	<u>100.0</u>	<u>100.0</u>
UK total (£ million)	1,036.5*	1,020.5*

Source: MMC, based on BPI and company information.

\*Excluding VAT.

6.22. The total size of the national retail market is estimated by BPI based on information from various sources. Market shares of individual retail businesses were calculated by relating their estimates of their own sales to the BPI total market estimate. On this basis it appears that W H Smith and Our Price, taken together, had a little over a quarter of the UK retail market in 1992.

6.23. Other major shares were held by Woolworths (15 per cent), HMV (13 per cent) and Britannia Music (8 per cent). A large share of the sector is accounted for by 'other OTC retailers', comprising a mixture of smaller multiples, independent specialists and non-traditional outlets.

6.24. We have not attempted to estimate market shares on a regional basis, although there are significant regional variations in market shares. John Menzies, for instance, is relatively more important in Scotland and the North of England than on a national basis, and W H Smith has a larger share in the South than in the North of England. On an even more local basis, consumer choice of retail outlet may be more limited in smaller towns where the large specialist stores do not operate.

## How retailers compete

6.25. There are a number of ways in which retailers compete with one another, and we have been told that there are important differences in how they concentrate their efforts:

- (a) *Price.* Records tend to be discretionary purchases, which are sensitive to changes in consumer income. However, a number of retailers said that demand for records is fairly insensitive to price, in that a general price reduction would not result in a large increase in demand. They also believed that consumers are sensitive to price differences between retail outlets for the same product. This has led to a high level of retail price competition, which has intensified during the past three years, especially for popular records. Chart products are usually sold at prices £1 or more lower than those of catalogue items, and retailers continually monitor local competition to ensure that they can respond quickly to price cuts by competitors. An example of such competition is Woolworths' 'Street Value' scheme which guarantees to refund differences in price on chart products bought more cheaply elsewhere. While price competition is most evident for records in the charts ('chart product'), many retailers conduct periodic price campaigns, often supported by record companies. Multiples such as Woolworths, Our Price and W H Smith Retail lay particular emphasis on their price competitiveness, though some small independents also do so, relying on low operating costs to make this an affordable strategy. Non-traditional outlets often emphasize price in a different way, by selling a small selection of chart or 'greater hits' product and catering for impulse buyers.
- (b) *Wide range of stock.* This is a strategy pursued by specialists like HMV and Virgin Retail, and large independents such as Tower. Breadth of stock nowadays extends to videos and computer games, in addition to records. Among records, by far the greatest space is devoted to rock and pop music, although there is usually also a classical section. A version of this strategy is pursued by many small independent retailers who specialize in particular music genres, such as dance, jazz or classical, or in a particular format such as vinyl. Such specialization makes possible a considerable depth of choice for the consumer favouring the specialism on offer.
- (c) *Quality of service.* Both large and small specialists employ trained staff with detailed product knowledge, an advantage not easily available to retailers for whom music is only one of many products or whose range is relatively narrow. Retailers such as HMV and Virgin Retail invest heavily in staff training.
- (d) *Location.* The outlets of the leading retail groups tend to have prime high street locations, while other retailers (typically smaller independents) tend to be less favourably located. Such locations will, of course, have a relatively high cost.
- (e) *Ambience.* Much effort is expended on making stores attractive to the browser. Many large stores have multiple video screens, up-to-date racking, display posters and listening pillars, where customers can sample selected records. Smaller independents can be at a disadvantage in this dimension of competition.

## Formats

6.26. Paragraph 5.21 referred to the decline of vinyl records, especially albums. The main reason for this decline has been the reduced attractiveness to consumers of vinyl compared with cassettes and CDs. Vinyl records have also become harder to find, as a consequence of two separate trends. The first has been the declining proportion of albums released on vinyl (13 per cent in 1992, compared with 33 per cent in 1989). The second has been the commercial decision by major retailers, following reduced demand for the format, either to cease stocking vinyl (eg W H Smith, Woolworths and John Menzies) or to cut back on the retail space given to it (HMV, Our Price, Virgin Retail). Table 6.4 shows the distribution of sales of singles and albums by all formats and by type of retailer in 1992.

TABLE 6.4 Sales of singles and albums by format and retailer type, 1992

*Volume of sales by retailer, per cent*

	<i>Specialist multiples</i>	<i>Non-specialist multiples</i>	<i>Independent specialists</i>	<i>Total</i>
<i>Singles</i>				
7" singles	20.8	23.3	55.9	100
12" singles	23.2	3.6	73.2	100
Cassette singles	38.6	33.4	28.0	100
CD singles	28.9	21.5	49.6	100
Total singles	28.1	20.9	51.0	100
<i>Albums</i>				
LPs	37.8	5.4	56.8	100
Cassettes	34.6	48.3	17.2	100
CDs	40.8	35.8	23.5	100
Full-price	38.8	37.8	23.4	100
Mid-price	41.2	35.0	23.8	100
Budget	22.0	64.4	13.6	100
Total albums	37.7	39.6	22.7	100

Specialist chains: HMV, Virgin, Our Price.

Non-specialist multiples: Menzies, W H Smith, Boots, Woolworths.

Source: *BPI Handbook*: Gallup data.

*Notes:*

1. This table does not include sales made through non-traditional outlets.
2. Percentages may not total to 100 because of rounding.

6.27. Table 6.4 indicates the importance of independent specialist retailers in the sale of singles (in all formats except cassette) and their much smaller role in the sale of albums. Among multiples, the specialist multiples sell many more singles, and fewer albums, than do the general multiples. These figures reflect the importance of specialist retailers, whether independents or chains, but especially the former, for the introduction of new product to the market. Independent specialists are particularly important for launching new dance records, but they are also important for rock and pop. Table 6.4 also shows the disproportionate importance of independent specialists in the sale of vinyl albums and the negligible album sales of this format made through general multiples.

### Access to retail outlets for record companies

6.28. In order to sell their products, record companies must be able to place them before the public. Although in principle this could be done by direct marketing (and, in fact, this is the method chosen by large companies such as Reader's Digest or Time Life for their special compilations), the essential requirement is access to retail outlets. We have been told that non-specialist outlets are more concerned with stocking records whose sales are assured (either as a result of past success or because of current promotional expenditure by record companies) than with taking risks with unknown artists or products. We were told that the growth in importance of non-specialist multiples could therefore make it more difficult for small record companies to promote unknown artists by arranging wide distribution on a speculative basis. Even with specialist chains, the narrower range stocked by smaller stores—for instance Our Price—means that stocking will be highly selective.

6.29. Superstores, and, in general, the outlets of specialist multiples, will normally try to hold a very wide range of product and thus provide many small independent producers with a shop window. Even they, however, make buying judgments on individual releases, both at Head Office (in placing a record on the stock guideline list) and at the local store buyer level. There are also many specialist stores willing to try out new product, with individual stores often specializing in a particular music genre, so that it will normally be possible for a small company at least to reach a niche audience with a new product.

6.30. For companies trying to reach a mass market, however, it is necessary to achieve chart entry. Apart from products which manage to catch the public's attention without major promotion by the record company (perhaps when a prominent disc jockey gives them a lot of airtime), considerable marketing expenditure may well be necessary, as well as widespread retail distribution. Small record companies advertise their products in the trade press (eg *Music Week*) and consumer press (eg *Melody Maker* and *New Musical Express*) and can place product in specialist stores. However, they are unlikely to be able to afford co-operative advertising or to have the associated relatively easy access to shelf space in non-specialist retailers. In practice these difficulties have not prevented independents from continuing to survive in the market and accounting for a substantial proportion of successful new product.

## **Relationship between retailer and supplier**

6.31. The business of the supplier (usually the distribution department of a record company but sometimes an intermediary) is to supply each retailer with the range of stock which the retailer believes will meet his customers' requirements. Such stock must also be supplied only in the quantities demanded by the retailer and only at the time that it is required.

6.32. Most retailers, whether independents or chains, deal with a number of suppliers, each responsible for processing orders for the products of one or more record companies. Actual delivery to stores has been delegated by major record companies to Securicor-see paragraph 5.206. With each of these suppliers the retailer will have negotiated a contract, indicating the normal terms of business, including any discounts and allowances for returns. Extra discounts may be negotiated on a case-by-case basis at the request of the retailer. There will also be arrangements for normal and special deliveries, arrangements for ordering and reordering stock, and agreed response times.

6.33. Record companies will generally provide information on the range of products available, new releases and special promotions, while the retailer will be responsible for deciding the size and frequency of orders. Some retail businesses which lack expertise in the recorded music business hand over some of these functions to a wholesaler, or a rack-jobber. Woolworths is exclusively supplied by EUK,<sup>1</sup> which also services other multiple retailers (eg Asda) and a large number of non-traditional outlets.

6.34. Stores are generally supplied on an individual basis by distributors-that is, the responsibility for warehousing and breaking bulk is undertaken by the distributor, even in the case of multiple chains (by contrast with other retail sectors, such as grocery, where final distribution is generally undertaken centrally from the chain's warehouse). Though ordering and reordering is done by individual stores, which usually communicate directly with the record companies, decisions concerning the products to be stocked, and their pricing in the store, are usually taken centrally in the case of non-specialist multiples. Specialist multiples generally allow local stores full discretion on stocking and some discretion on pricing. The wholesaler TBD is commonly used as a supplier of last resort in cases where the regular distributor is unable to meet the retailer's needs in the time required.

## **Promotion**

6.35. Both record companies and retailers engage in promotional activity, using all kinds of advertising media. Record companies need to inform the public about the excellence and range of their back catalogue and about current releases. Retailers want to advertise the availability in their stores of a wide range of products from many record companies, but also wish to promote themselves to the public.

6.36. There is a large category of co-operative promotional activity conducted jointly by retailers and record companies, through which a record, or range of records, connected with a particular record company are advertised along with the name of the retail store where they can be purchased. Advertising may take the form of television, radio, specialist press or poster campaigns. Co-operative advertising may take place within the stores themselves, using point of sale advertisements, special racking or window

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<sup>1</sup>A fellow-subsiary of Kingfisher plc.

displays supplied by the record company. Campaigns of this nature usually involve advance purchases of additional stock by the retailer in order to meet the enhanced customer demand expected to result from the campaign.

6.37. We have been told that although major co-operative promotional campaigns are more difficult to organize for independent retailers than for chains with many branches, such campaigns, involving groups of independent retailers, do take place, usually through print advertisements.

6.38. Record companies told us that promotional expenditure which used to be shared with retailers is now largely borne by themselves. They often have to pay the retailer for privileged in-store display and for window displays, previously usually supplied free.

6.39. Table 6.5 shows the promotional costs incurred in 1992/93 by one large retailer, and the amount by which they were defrayed by supplier contributions.

TABLE 6.5 **A large retailer's promotional costs and supplier contributions**

	1990/91	1991/92	1992/93
UK promotional costs (£m)	[	<i>Figures omitted.</i>	
Supplier contributions (£m)		<i>See note on page iv.</i>	
(%)	36	76	85

Source: A UK retailer.

6.40. This retailer told us that it was not necessarily bearing a smaller proportion of co-operative promotion costs than the supplier, since in the earlier years a much larger proportion of total promotion costs had consisted of solus promotion by the retailer. There had been a change in the marketing mix towards co-operative television advertising, and the figures reflected the retailer's success against other retailers in attracting suppliers' limited promotional funds. Whatever the explanation, it is clear in this case that a progressively increasing share of the retailer's total promotion costs (including both solus and co-operative) has been paid for by record companies.

6.41. Retailers also emphasized that such promotions helped all retailers who stocked the records being promoted. Consumers seeing an advertisement would often make their purchases of the records advertised from a retailer other than the one featured in the advertisement.

## **The balance of power between retailers and record companies**

6.42. Record companies and retailers have different roles in the distribution chain, but both have essentially the same goal: to profit from consumers' demand for recorded music. The balance of power between them will help to determine how the profits from recorded music are divided. Record companies told us that the growing concentration of retailing has tilted the balance of power in favour of the retail chains. If increased retail concentration means that a record company knows it has to persuade a small number of chains to stock its product in order to achieve adequate sales, then it is in a weak position to resist demands-for extra discounts or promotional support-from any one of those chains.

6.43. Retailers, on the other hand, stressed to us the implausibility of this scenario. Records, they said, are not commodities, but unique products. There is a non-substitutable demand for a high proportion of them. When such products are in demand, retailers have no choice but to offer them for sale.

6.44. Discounts to the larger retailers do appear to have risen (see paragraph 7.29), together with allowances for returns. On the other hand, W H Smith and Our Price do not co-ordinate their buying arrangements, even though this might be expected to increase their bargaining power. Indeed, we were told that when W H Smith took over Our Price in 1986, some record companies initially reduced the level of price discount given to Our Price to that being given to W H Smith.

6.45. Record companies also pointed to the growing share of co-operative advertising borne by them (see paragraph 6.38) as evidence of the increasing power of retailers. Retailers, however, denied this interpretation. They tended to point out the value to record companies of such promotions and claimed that it was more cost-effective for them to promote records by paying retailers than by undertaking the promotion themselves. Retailers also referred to the risks they take in pre-buying television and press advertising space.

6.46. We were told that record companies tend to have a closer relationship with specialists (including smaller independents) than with non-specialists. A number of record companies have expressed concern about the decline in the number of independent specialist outlets because of what is seen as their crucial role in breaking new artists and launching non-mainstream products. The relationship between record companies and independents is largely conducted on a personal basis by the record companies' field sales representatives, who negotiate one-off deals, supply free stock and point of sales material and keep the retailer in touch with developments, especially new issues. As a result of retailer policy, record company representation with certain multiples-notably Woolworths, W H Smith and Our Price-is normally at headquarters level rather than through the field sales force.

## **Order processing**

6.47. Ordering of records by retail stores is still typically made by telephone. However, orders are increasingly made via computer links (eg EROS, a computer-based reordering system, which is a joint venture by BMG, PolyGram and EMI). A number of respondents have told us that record supply has increasingly gone on to a just-in-time basis, with smaller and more frequent orders being made and retailers taking reduced responsibility for stockholding. We were told that this had led to an increase in record companies' distribution costs. The spread of electronic point of sale (EPOS) systems in chain stores has increased efficiency of ordering and somewhat reduced the risk of retail overstocking.

## **Imports**

6.48. Where there is demand for records which are not available in the UK, Virgin Retail obtains its requirements from the USA and Japan directly and from EC countries through specialist importers. HMV imports directly from the USA and uses specialist importers for its other requirements. The other major retailers obtain all their foreign record requirements from such specialist importers. As for parallel imports (see paragraphs 4.25 to 4.28), W H Smith pointed out the difficulties that would exist if it were to rely on such imports while otherwise operating on a 48-hour ordering cycle. Moreover, such a practice would make for a difficult trading relationship with the UK supplier.

## **Seasonality of retailing**

6.49. Due to the popularity of records as gifts, sales are much higher before Christmas, especially for albums. According to BPI statistics, around 40 per cent of albums (30 per cent of singles) are retailed in the fourth quarter of the year, compared with about 20 per cent (24 per cent) in each of the other quarters. A major retailer informed us that December accounted for almost 21 per cent of annual sales.

6.50. Weekday retail sales are concentrated on Friday (16 per cent of sales) and Saturday (34 per cent).

## **Product life cycles**

6.51. Most releases of new pop recordings by record companies are made at the full-price level (though we have been told of examples of first issues at a mid-price level). Many pop records are deleted a few weeks after issue, if there is only a limited demand for them. However, others are longer lasting, and after some months will become part of the record company's back catalogue, generally priced at the full-price level. Periodically the record company will conclude that there is a significant market for some of its back catalogue at a lower price, and decide to re-release these products, at a mid-price or budget level.

6.52. A number of companies, such as Pickwick and Castle Communications, license back catalogue items from major record companies and reissue them, often as budget-price compilations. Many of these products are sold through non-traditional outlets. Alternatively, record companies may themselves reissue records from their back catalogue at budget prices—for instance, EMI, through its Music for Pleasure brand. In the classical area many new titles are now released at mid-price or budget.

6.53. We were told that product life cycles have less significance for retailers than for producers. Some generalizations are possible, however, for broad groups of records. Singles tend to be demanded (and hence stocked) for a very short period; pop albums can have a longer, but still highly peaked, life cycle; classical records tend to be more consistent sellers. However, within each of these categories there are large variations.

6.54. Retailers try to carry as little excess stock as possible. However, there will always be some stock that cannot be sold at the expected price. From time to time retailers will clear such stock by selling it at sharply reduced prices. Periodic sales will also be held of regular stock, often (though not always) purchased at special campaign rates of discount from record companies. When record companies delete a record, stocks will either be returned to the company (according to agreements on returns) or sold by the retailer at a knockdown price. Some retailers purchase deleted lines for special sale.

## Charts

6.55. A number of charts are produced weekly for the UK market. They allow producers and retailers to monitor the degree of sales success being achieved by particular records and inform consumers about which records are currently most popular. Inclusion in a chart can also promote a record or an artist among consumers, resulting in greater sales for the record company and retailers. This role is most important for music with mass appeal, and so the charts are most important for pop music, though we were told that classical charts also have a strong impact on consumers. BMG told us that [\*] per cent of the [\*] full-price albums it issued in 1993 reached the Gallup Top 100 and that its three top-selling albums accounted for over [\*] per cent of its album sales in 1992/93. Sony told us that [\*] per cent of its total sales in 1993 were from albums that entered the Gallup Top 75 Album Chart.

6.56. The main charts are as follows:

(a) *The Official Charts*. Based on sales data supplied by a large sample of record outlets,<sup>1</sup> these are regarded as having most credibility in the industry. Separate charts for the Top 75 singles and the Top 75 albums are published in *Music Week* and are widely publicized in the media. Until recently they were compiled by Gallup<sup>2</sup> under a contract from Chart Information Network (CIN), a joint venture between the BPI and a subsidiary of United Newspapers, the publisher of *Music Week*. The album chart is split into an individual artist chart and a compilation chart, the latter containing multi-artist compilation releases. Between January 1993 and February 1994, when it was discontinued, there was a 'Breakers Chart', identifying singles currently outside the Top 40 whose sales had been increasing relatively fast. Some concern was expressed to the MMC about the scope for distortion of the charts, especially by major record companies distributing free records to retail outlets whose sales are taken into account in compiling the charts. The majors denied that it was possible to distort the charts on a consistent basis, and pointed, as evidence, to the success of independent companies' records in the singles charts.

(b) *The Independent Charts* (singles and albums). These are compiled under similar arrangements to the Official Charts, but include only records that have been distributed by distributors other than

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\*Figures omitted. See note on page iv.

<sup>1</sup> Analysis is based on sample data from 1,500 to 1,600 retail outlets. Data concerning sales of records for the full week are obtained using Epson machines or EPOS terminals which transmit direct to the collection agency.

<sup>2</sup> Since February 1994 the charts previously compiled by Gallup (referred to in paragraph 6.56(a), (b) (c) and (f)) have been compiled by Millward Brown.

those of the major record companies (ie mainly Pinnacle). We have been told that major record companies sometimes arrange for those of their own records which they believe would benefit from inclusion in the independent chart to be distributed through Pinnacle.

- (c) *Classic FM chart.* This is produced by Millward Brown (previously by Gallup) under CIN auspices and promoted by the radio station Classic FM, whose Chart show is sponsored by W H Smith. The chart is based on national retail sales of classical CDs.
- (d) *Network chart.* This is compiled by ERA on behalf of independent radio and is broadcast on Sunday evenings by a number of independent radio stations. The Top 10 is identical to the official singles chart, but selection of numbers 11 to 40 takes account of both retail sales and independent radio airplay.
- (e) *Retailers' own charts.* Most major retailers now produce and display their own record charts (or 'hit lists') for albums, and sometimes also for singles. Table 6.6 shows which large retailers display in-house charts (see Appendix 6.1 for examples).

TABLE 6.6 Type of charts displayed by major retailers

Retailer	In-house charts		Official charts	
	Singles	Albums	Singles	Albums
W H Smith Retail	Yes	Yes	No	No
Woolworths	Yes	Yes	No	No
Our Price	No	Yes	Yes	No
HMV	No	Yes	Yes	No
Virgin Retail	No	Yes	Yes	No

Source: Retailers.

In-house charts differ from the official charts. Most importantly, unlike the official charts, in-house charts are not exclusively based on actual sales performance. This is not usually pointed out<sup>1</sup> or otherwise made clear to the consumer. In-house charts purport also to reflect the retailer's own forecasts of sales in its own stores. Such charts are likely to include new releases, which would not qualify for an appearance in the official CIN chart since they have no sales record. These charts may also be based on the previous week's sales performance in the retailer's own outlets rather than national sales performance, and thus reflect the customer profile of the retailer in question rather than of the market as a whole. We have also been told that promotional expenditure by a record company can qualify a record for entry to some retailers' charts, or for an improved position on them. There have been cases in the past where record companies have been charged for inclusion of a record in a retailer's in-house chart. We understand, however, that this practice has been discontinued.

- (f) There are many other charts compiled for the industry, many (though not all) from Gallup data. Some of these charts (often for particular music genres) may be important in specific niches, but are not considered to rival the official charts as indicators of success.

6.57. The official singles chart is considered in the industry to be of considerable importance. It is the principal focus of the buying public's interest, and inclusion in it serves to increase the public profile of an artist through virtually guaranteed airtime on radio and television and press attention. Retailers are likely to stock and promote chart records ahead of other records, displaying them in the most prominent position with special racking and point of sale advertising.

6.58. Although the official singles chart remains important, its significance is said by some in the industry to have declined in recent years. This may be partly attributed to the overall fall in sales of singles, although the decline was reversed in 1993. A further explanation is the shorter life of chart records-42 per

<sup>1</sup>However, W H Smith's singles and albums charts now indicate that chart positions reflect sales in W H Smith stores or, in the case of new releases, expected sales through those stores.

cent of releases reaching the Top 40 of the Singles Chart in 1992 remained there for no more than two weeks compared with 11 per cent in 1988. This has been said to reflect the greater incidence in the charts of dance music, the popularity of which tends to be ephemeral.

6.59. Though singles account for a relatively small proportion of sales (paragraph 5.12), inclusion in the singles chart is often the key to driving album sales. From the viewpoint of the record company, success in the singles chart enhances the company image, increases media interest, increases its ability to attract new artists and helps sales representatives to obtain retail support for new releases. It will also help to direct the company's policy towards album releases.

6.60. In spite of the relative importance of album sales, the official album charts are considered in the industry to have much less importance than the official singles charts. The major retailers place much greater emphasis on their own album charts. Nevertheless, the official album charts retain some importance because of their impact on support, both in the media and the retail sector, for newly- issued singles taken from previously-issued albums. Success in album charts is useful as advertising copy for such subsequent singles (eg 'Taken from Top 10 album'). It can also lead to increased radio exposure and increased retail support (eg priority racking).

## **Dealer prices, discounts and retail prices**

6.61. The prices charged to retailers by record companies for the supply of records, the discounts retailers may be able to negotiate, and retail prices are described in paragraphs 7.4 to 7.44.

## **International comparisons of retailing**

### ***Retail concentration***

6.62. We were told that concentration of music retailing in the UK is the highest of any developed country, especially if W H Smith and Our Price are counted as one retailer. Three UK retailers (Woolworths, HMV and Our Price) accounted in 1992 for 47 per cent<sup>1</sup> of the market. We were told that in a small number of markets a single retail buyer (eg FNAC in France and Fona in Denmark) accounted for over 20 per cent of the market, but in such cases the next two largest buyers were much smaller. In the USA, no individual retailer accounts for as much as 10 per cent of the national market, though regional concentration can be much higher.

6.63. One major international record company supplied an international comparison of the share of its sales taken by its top five customers (including wholesalers) in 1993, as follows:

	%
UK	61
Denmark	57
France	50
Japan	49
Germany	37
USA	36
Netherlands	35

Information supplied by other record companies was broadly consistent with this picture, and certainly with the conclusion that retail concentration in the UK is high by present international standards.

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<sup>1</sup>The largest three buyers in the UK would account for a larger percentage, since EUK, which buys on behalf of Woolworths, also has other customers.

## ***UK and US retailing compared***

6.64. The UK and USA are both highly developed markets for recorded music, encompassing a wide range of types of outlet-small independents, multiple chains, and a growing number of large music stores-and including many direct sales channels.

6.65. The US market is very much larger than that of the UK. Unlike the UK, it has a relatively small number of national retailers, many retail chains confining themselves to particular regions. On average, individual specialist music stores in the USA have a narrower product range than in the UK-8,000 line items as against at least 10,000 in the UK.

6.66. In contrast to the UK situation, where primary distribution is generally direct to store, nearly all large US retailers undertake their own final distribution to individual stores, primary distributors supplying product in bulk to the retailer's central warehouse. Intermediate distributors also play a larger role in the US market than in the UK. The result is that individual orders to record companies are on average for a much larger number of units in the USA than in the UK. Reflecting this fact, in the USA (but not in the UK) an extra charge is levied by the primary distributor for delivering product in less than box-lot quantities (25 units per order line).

6.67. The Robinson Patman Act in the USA prevents suppliers differentiating between customers of the same class in the terms on which they will supply them. This is designed to eliminate the exercise of buying power in trading terms, and the kind of individual negotiations over the level of dealer discounts, co-operative advertising, credit days or returns, that occur in the UK could not legally take place in the USA.<sup>1</sup> This has not, however, prevented the multiple chains (either in this or other product markets) from progressively increasing their market share at the expense of independent retailers.

6.68. We were told that, relative to the UK, US retailers benefit from a number of structural advantages: cheaper, more flexible and more productive staff; greater availability of attractive retail space; cheaper and highly flexible property terms.

6.69. The US system of distribution is characterized as 'push-through' compared with a 'pull-through' system in the UK. That is, in the USA initial shipments from record companies of new release stock are very large (up to eight weeks' supply), and retail buyers are given both very long credit (80 to 100 days) and sale-or-return terms (with returns of up to 18 per cent incurring no penalty). By contrast, in the UK, record companies usually aim to supply only two to four weeks of retailers' requirements prior to a major record release,<sup>2</sup> on less generous credit terms (30 days) and with limited returns allowances. Distribution to store is much quicker in the UK, however, so that retailers can get rapid replenishment of stocks for new releases that prove successful.

6.70. In the USA the numbers of purchasers in each segment are much greater than in the UK, and there is also a much greater availability of targeted media in the USA (eg MTV and genre-related local radio stations), so that a narrowly-defined target audience can be addressed relatively cheaply.

6.71. Free stock is a major part of trading terms in the USA with all kinds of retailer and to a greater extent than in the UK.

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<sup>1</sup>Retailers performing their own distribution might be regarded as a different class from those supplied direct and thus offered distinct terms. The retailer who pointed this out, however, does not itself make such a distinction in its US operations.

<sup>2</sup>If retail sales are good, reordering occurs.

## ***Music retailing in other countries***

6.72. While each national retail market has its own peculiarities, we have been told that all have experienced stagnation of music sales. Small independent retailers are losing share to multiple chains and superstores (where planning regulations permit) as well as to other retailers (eg supermarkets), diversifying away from their traditional product business. This decline in numbers of small independents has in most cases (with the USA and Japan as exceptions) been accompanied by a fall in total numbers of outlets. Another common feature is a growing tendency for a number of major retailers, such as Virgin, HMV and Tower Records, to expand their activities beyond their national boundaries and to enter foreign markets. Some characteristics of individual national markets are mentioned below.

### ***Japan***

6.73. The special feature of this market is said to be its highly restrictive retailing laws, including the retention of resale price maintenance (RPM) for domestically-sourced product up to two years old (RPM does not apply to imports). This has resulted in the retention by small retailers of an unusually high share of the market. 36 per cent of all outlets are served by the same wholesaler.

### ***Germany***

6.74. There has been a severe decline in the number of music outlets—from 15,000 in West Germany in 1975 to 7,000 in Germany as a whole in 1993. The largest single music retailer is Karstadt, a department store. The independent sector is said to be quite strong, with little dominance exerted by major chains. Specialist stores and superstores are slowly making gains. Some German retailers (large specialist chains, department stores and supermarkets) operate central distribution operations for music. We have been told that the larger specialist chains and the superstores stock parallel imports.

### ***France***

6.75. Following the transformation of French retailing by the advent of hypermarkets and the rise of specialist superstores there has been a very sharp fall in the number of specialist music outlets. There are now estimated to be around 610 independent retailers in France, compared with some 2,000 in 1978. Specialist superstores account for the largest share of sales of any European territory (30 per cent, against 20 per cent in the UK).

6.76. The largest multiple retailer is FNAC, said to account for almost one-quarter of French music sales, whose large stores stock an average of 80,000 line items. It competes with hypermarkets such as Carrefour and Auchan on new releases, but much less on back catalogue, which hypermarkets do not stock in large quantities. The proximity of Virgin and FNAC stores in Paris has led to intensive price competition.

6.77. In the recession music retailers have become more price competitive. Hypermarkets are the main parallel importers, obtaining chart product from the Netherlands and the UK.

### ***Netherlands***

6.78. Record retailing in the Netherlands is quite different from that in the UK, with specialist shops, including independents and chains, accounting for a relatively low proportion of sales (46 per cent in 1992). Record clubs are relatively important, their 19 per cent market share largely accruing to one company, ECI, which is owned by Bertelsmann. This company is said to exert considerable market power. There are approximately 1,000 outlets of sufficient size to be supplied direct by distributors. Very small retail outlets and general shops selling music are supplied by wholesalers. Music is also sold through the music sections of department stores. There is only one superstore (Virgin), located in Amsterdam.

6.79. Virtually all marketing and promotion of artists and releases is done directly by the record companies. There is very little co-operative advertising.

### ***Denmark***

6.80. The Danish retailing market is underdeveloped compared with the rest of Europe. There are no music superstores. The market is dominated by electrical goods retailers who also stock music. There are just two specialist chains, accounting for about 10 per cent of the market, an unusually low proportion. There are signs of development in the market, especially from supermarkets, which account for 17 per cent of the market and are increasingly stocking chart product at discounted prices to generate custom. Most music departments and retail outlets are too small to have space for spare stock. The distribution system operates on very quick turnround, with small retailers making very small and frequent orders.