

7 Prices

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Introduction

7.1. Concern over the prices of CDs was an important factor leading to this inquiry and in this chapter we examine in detail the prices of recorded music in all its formats. We begin by looking at prices in the UK and then compare these with prices in other countries, examining in particular the differential between the UK and the USA since this has been the particular focus of consumer concern about CD prices.

7.2. The final price a consumer pays for a record is made up of the following components:

- (a) The price charged by the record company to supply the record to the retailer (or wholesaler). This is based on a list price, known as the *published dealer price*, from which individual retailers are given various discounts and allowances to arrive at a *realized dealer price*.
- (b) The margin added by the retailer to arrive at the *retail price* without tax.
- (c) Value added tax (VAT).

7.3. We follow this order in examining the prices of records in the UK, beginning with published dealer prices and realized dealer prices before moving on to retail prices. VAT is charged at the standard rate of 17.5 per cent on all records sold in the UK.

Published dealer prices in the UK

7.4. The published dealer price is the wholesale price at which the record company offers to supply retail outlets (there is usually no extra charge for delivery, except in the case of very small orders). It is also the starting point from which any negotiated discounts will be calculated. Prices are specific to particular products, but individual products will normally be priced in a range relating to the type of product.

7.5. These price ranges are defined in terms of the format (single or album; CD, cassette or vinyl) and the price position relative to other items of that format.

7.6. The published dealer price of singles will normally depend only on the format in which it has been produced. However, each album release is placed in a price category (eg full-price, mid-price, budget) for each format. Tables 7.1 and 7.2 show certain recent published dealer prices for the five major record companies for non-classical and classical records respectively, for the main price categories and for each product format.

TABLE 7.1 Published dealer prices for non-classical records,* September 1993

		£					
		<i>Polygram</i>	<i>EMI</i>	<i>Sony</i>	<i>Warner†</i>	<i>BMG</i>	<i>Unweighted average</i>
<i>Albums</i>							
LP	Mid-price	3.07	3.19	2.97	-	-	3.08
	Full-price‡	5.25	5.13	5.17	5.61	-	5.29
	Deluxe full-price	5.53	5.29	5.35	6.22	5.60	5.60
MC	Mid-price	3.07	3.19	2.97	-	3.35	3.15
	Full-price‡	5.25	4.99	5.17	5.30	5.35	5.21
	Deluxe full-price	5.53	5.13	5.35	5.66	5.60	5.45
CD	Mid-price	5.25	5.04	5.05	-	5.24	5.21
	Full-price‡	7.59	7.56	7.59	7.96	7.59	7.66
	Deluxe full-price	8.15	7.86	8.03	8.21	8.14	8.08
<i>Singles</i>							
LP	7"	1.36	1.20	1.21	1.35	1.35	1.29
	12"	2.49	2.27	2.15	2.50	2.49	2.38
MC		1.36	1.20	1.29	1.35	1.35	1.31
CD		2.59	2.15	2.15	2.59	2.59	2.41

Source: MMC from information supplied by the companies.

*The table shows the main price categories. Some record companies also have a Budget price category.

†Warner increased its prices on 27 September 1993. The table shows the increased prices.

‡Full-price is sometimes called 'standard' price.

TABLE 7.2 Published dealer prices for classical records, September 1993

£

Albums		Polygram	EMI	Sony	Warner*	BMG	Unweighted average
LP	Budget	2.37	-	-	-	-	2.37
	Mid-price	3.07	3.19	-	-	-	3.13
	Full-price	5.53	5.29	5.17	-	-	5.33
MC	Budget	2.37	-	2.12	2.75	-	2.41
	Mid-price	3.07	3.19	2.97	3.42	3.27	3.18
	Full-price	5.53	5.29	5.17	5.51	5.34	5.37
CD	Budget	3.75	-	3.57	3.93	3.24	3.53
	Mid-price	5.53	5.40	5.05	5.36	4.99	5.27
	Full-price	8.15	8.14	7.59	7.96	7.89	7.95

Source: MMC from information supplied by the companies.

*Warner increased its prices on 27 September 1993. The table shows the increased prices.

Price categories

7.7. The broad groupings shown in Tables 7.1 and 7.2 are those generally acknowledged in the industry.

7.8. *Full-price*, sometimes called 'standard' price, is the bench-mark against which the other categories are defined. Products priced in this category are normally new releases and older recordings which continue to sell well and are perceived as premium products. Products by top stars may be priced in a premium price category known as 'deluxe' full-price which is higher than full-price. Records that are heavily promoted on television might also be released at a premium price known as 'TV' which might be the same as deluxe.

7.9. *Mid-price* is usually set around 60 to 70 per cent of full-price. This category is used principally for older, slower-selling products. These products will normally have been re-released at this price having been deleted from the full-price category, since there was believed to be a residual demand at the lower price. The category might be used for a new release where it is judged that the release would be unlikely to succeed at full-price.

7.10. *Budget-price* is normally around 50 per cent of full-price. Several types of product can fall into this category. New compilations of existing solo artists' repertoire or concept albums with a relatively low brand image which are likely to be sold through non-traditional outlets are often sold as budget items. Some old works by big name artists and less popular works may also be sold as budget items. Many classical recordings, including new releases, sold through all types of outlets also fall into this category. The entry of companies like Tring, specializing in product that attracts minimal royalties, has resulted in prices well below the normal 'budget' level, sometimes referred to as 'super budget'.

7.11. Special pricing arrangements apply to mail order, the bulk of which relates to record clubs. Usually, a distinction is made between the manufacturing price, payable to the supplying record company for goods delivered, and royalties for each unit sold by the record club. The latter are paid quarterly in arrears, to the record company for the copyright in the sound recording and (through the MCPS) to the owner of the music copyright. Prices to record clubs are significantly below ordinary dealer prices to reflect the special conditions of supply to this market segment (see paragraph 6.16).

Variation in price of a recording over time (ie the product life cycle)

7.12. The price of the same recording can change over time as its position in the market-place changes. This is known as the product life cycle (see also paragraphs 6.51 to 6.53). A release at full-price will normally be aimed at the existing fans or purchasers of the current 'fashion'. The product may continue to

be successful and sell at full-price for some time. Eventually sales will fall and the record company will then have to decide whether to delete the product from its catalogue or re-release it at a lower price in the hope of achieving further sales.

Variation in dealer prices between companies

7.13. The published dealer prices shown in Tables 7.1 and 7.2 show a degree of variation between companies for each price category. If in each category the dealer price of the company with the lowest price is taken as 100, the most expensive published dealer price in that category is shown in Table 7.3.

TABLE 7.3 Highest published dealer prices for each price category*

	<i>Full-price</i>	<i>Mid-price</i>	<i>Budget</i>
Cassettes	111	115	130
CD	108	111	121

Source: MMC from information provided by the companies.

*Lowest price for each category = 100, based on Tables 7.1 and 7.2.

7.14. We have described the main price categories. The record companies have told us that they have a considerable array of published dealer prices for each format which partly reflect special characteristics of the recording such as double or triple albums. Some of these prices are shown in Appendix 7.1.

Reasons for price categories

7.15. The price categories reflect a clustering of prices around price points. We were told by the record companies that these price categories have developed over time, through competition between record companies, and through interaction between record companies, on the one hand, and retailers on the other, to become the 'standard' form of pricing in the industry in the UK and in other countries.

7.16. We were told that new releases were priced according to price categories because the demand for individual recordings is highly uncertain. The sales success of a new release cannot be known in advance and in the result varies from album to album for both new and established artists. This uncertainty about likely sales levels, coupled with the great number of new releases, means that it is difficult if not impossible to price each record individually in order to attempt to maximize net revenues in respect of individual albums on the basis of likely demand.

7.17. In addition, records cannot be priced on the basis of costs incurred in the production of an individual recording. There are production costs associated with the manufacture of each unit. Some A&R, marketing and general overhead costs are associated with each recording, but many cannot be. To allocate these costs on a per unit basis would necessitate knowing in advance the likely level of unit sales that the recording will achieve. Even if these could be estimated within reasonable limits it would not make sense to charge a less successful record at a higher price to cover its high unit costs and a successful record at a very low price because its fixed costs could be spread over a larger number of sales. In practice, because sales of individual records are so difficult to predict, successful records have to help recover the costs of unsuccessful records, so the object is to make a return over the company's catalogue taken as a whole.

7.18. The record companies told us that it would also be impractical for the industry to operate a perfect price continuum. It would be costly at wholesale and retail levels and would be confusing for the consumer. In practice record companies price each new release at one of a number of list pricing points and concentrate on competing with other record companies through promotional campaigns and the discounts that they offer on specific releases in order to achieve sales.

Other constraints on pricing

7.19. The record companies told us of a number of factors relating to retailing and consumer behaviour that constrain their pricing decisions and reinforce the price categories described above. For instance, retailers use price bands that reflect dealer price categories. A dealer price reduction within the same price band by a record company is unlikely to result in a lower retail price (see paragraph 7.41).

7.20. A further factor influencing a record company's pricing strategy for new releases is the perception of the public, the retailer, and the artist, that a low price indicates that a recording is a low-quality product, in the sense that the artist is unsuccessful or the recording an old one. The ability of a record company to use low prices as a means of promoting a particular recording is constrained by the need to ensure that the recording is not perceived as a low-quality product since such a public perception would be fatal to the successful development of the artist. Often more established artists secure some contractual control over the pricing of their releases such as a requirement to issue only at full-price.

Format prices

7.21. The same recording will be priced differently according to the format on which it is released. A recording will be offered at broadly the same price on the analogue formats (LP and cassette) but at a higher price on the digital format (CD). On the basis of the prices in Tables 7.1 and 7.2 the published dealer prices of full-price CD albums, whether classical or non-classical, are around 50 per cent higher than the published dealer prices of cassettes or LPs.

7.22. Figure 7.1 shows the UK trade (ie dealer) prices (at 1992 prices) for LP, cassette and CD since 1974. In 1974 the average price of the new format, the cassette, was higher than the average price of the established format, the LP. By 1979 the cassette price had fallen to the same as the LP and since then the prices of the two formats have remained broadly the same.

7.23. When a new format, the CD, was introduced in 1983, its price was above those of the other formats. The record companies told us that this price reflected the costs of production and the judgment that market penetration would be low and confined to classical music 'buffs' who placed a premium on high sound quality. The record companies told us that the prices for analogue formats were extremely low at the time, as a result in part of the fear of increased home taping if prices were seen by consumers as being too high. The average trade price of a CD has been falling in real terms since 1986. The record companies attribute this fall in relative price partly to the fall in manufacturing costs, and partly to the more widespread use of the format for products in lower price categories.

7.24. When the CD was introduced in 1983 its price at wholesale was 2.13 times that of the cassette and LP (see Figure 7.2). The disparity in prices increased to a peak of 3.08 in 1986. However, the ratio has declined from that point and now appears to have levelled out at 1.47. That is to say, CDs are on average 47 per cent more expensive than cassettes.

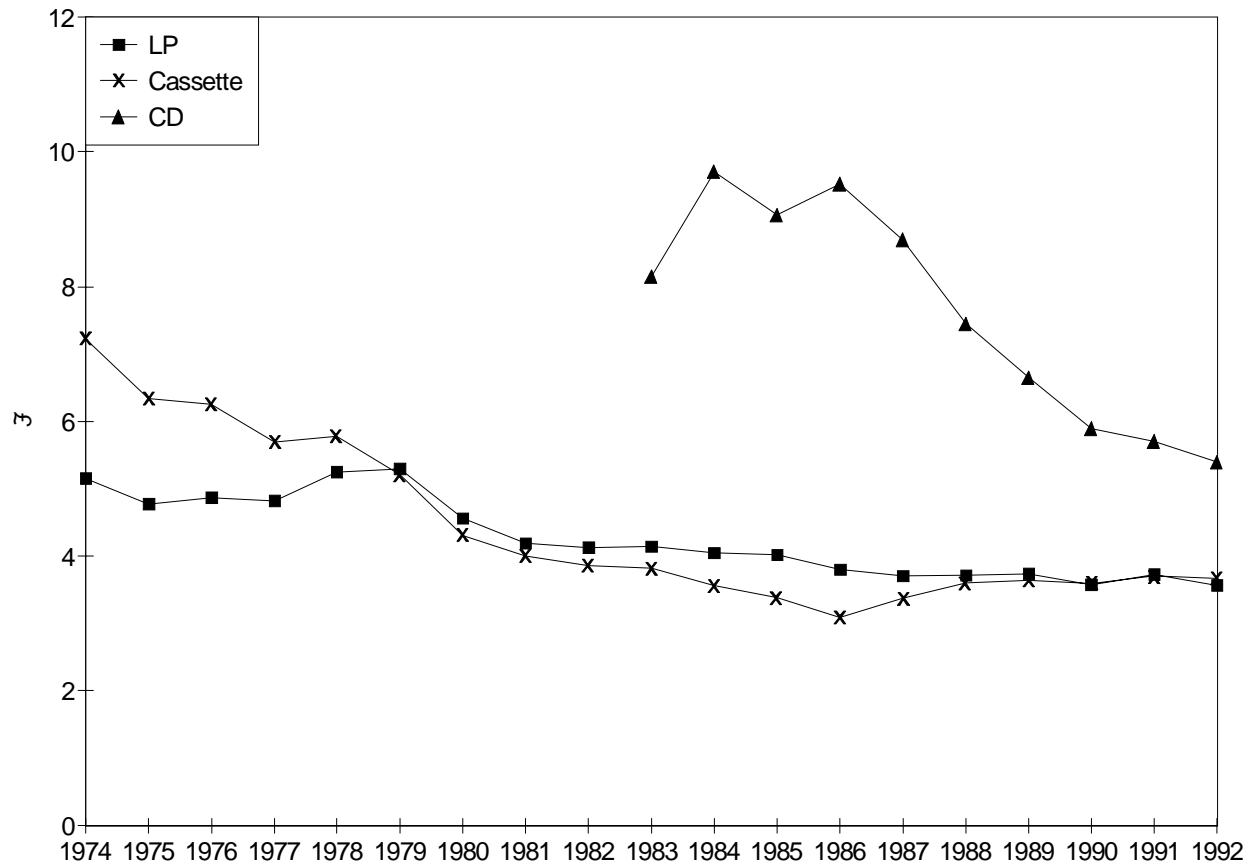
Reasons for price differences for each format

7.25. The record companies told us about their pricing policies for different formats. The policies of most companies have the objective of maximizing their returns on the copyrights they own. These policies are the same as those operated by record companies generally around the world.

7.26. The manufacturing costs are only a relatively small proportion of the price of each format and most other costs are not format-related. The record companies told us that they price different formats according to the consumers' willingness to pay. The higher price they charge for a recording on CD, relative to the price of the same recording on cassette or LP, reflects the consumers' perception that the CD is a higher-quality product.

FIGURE 7.1

UK average trade prices, 1974 to 1992,* LPs, cassettes and CDs

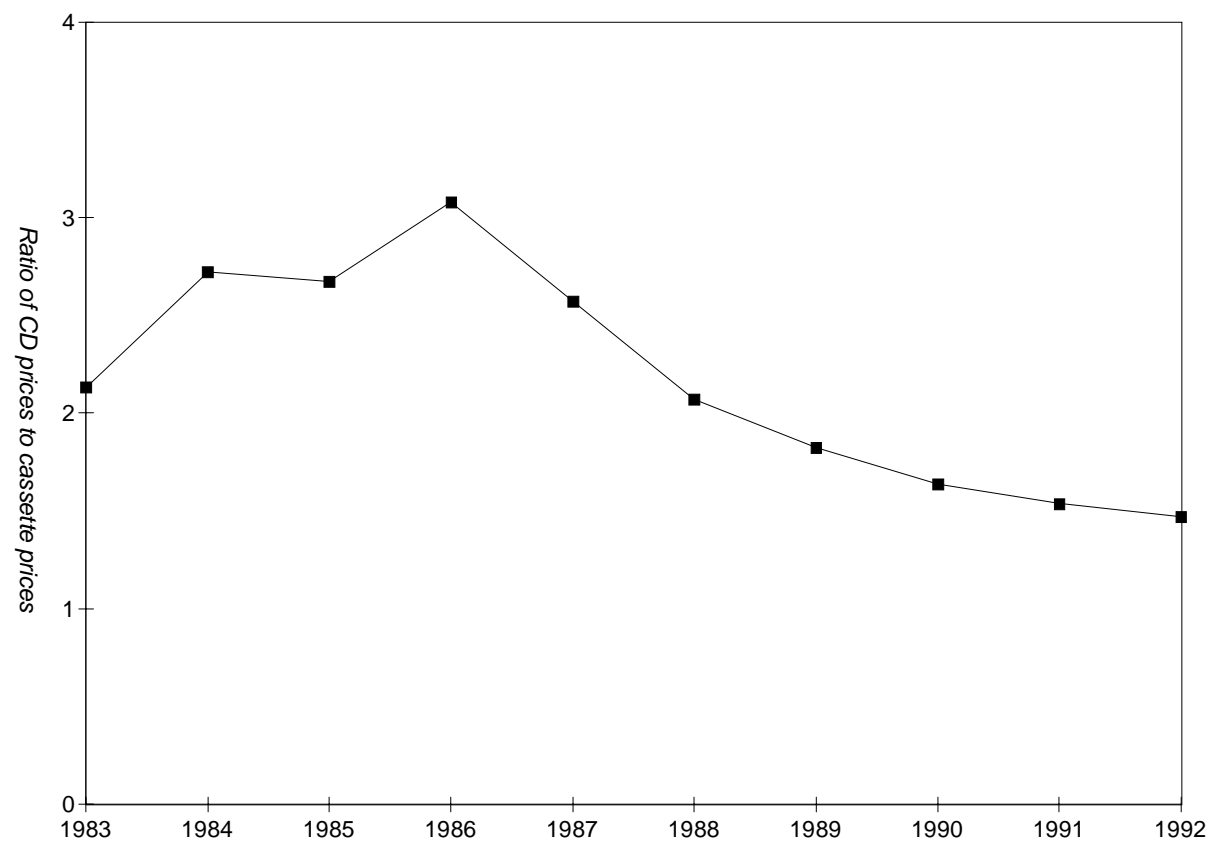


Source: MMC calculations based on BPI data.

*Trade deliveries are defined as sales of records, cassettes and CDs invoiced to dealers and distributors. Values are at 1992 wholesale, do not include VAT and are net of returns and discounts.

FIGURE 7.2

Ratio of CD prices to cassette prices (1992 trade prices*) for years 1983 to 1992



Source: MMC calculations based on BPI Surveys data.

*Trade deliveries are defined as sales of CDs and cassettes invoiced to dealers and distributors. Values are at wholesale, do not include VAT and are net of returns and discounts.

7.27. It is by means of this price discrimination that the record companies aim to maximize their returns, subject to the constraints of the market. They regard the initial high price of the CD in real terms, and relative to the other formats, over the past few years (see Figures 7.1 and 7.2) as normal for a successful technical innovation in a competitive market. Some of the record companies pointed out that price discrimination—setting prices according to the consumers' willingness to pay rather than according to the costs of production—was common practice in industries based on the exploitation of copyright.

7.28. In such industries, price discrimination takes place mainly on the basis of the timing of the 'release' of the product in a different form. For example, book publishers generally publish hardback books before the paperback version; films are screened at cinemas before they are released on video or appear on television. In the case of records, all formats are released at the same time. The record companies argued that price discrimination by format had increased the total demand for recorded music by providing simultaneously a range of price and quality to suit different consumers' requirements. This had resulted in greater sales, lower unit costs, and therefore lower prices, and a greater variety of products.

Realized dealer prices (ie prices to retailers and wholesalers after discounts)

Discounts

7.29. Prices paid to the record companies by retailers and wholesalers will depend on any discounts to published dealer prices which may be negotiated by individual retailers and wholesalers. The main types of discount are as follows:

- (a) *File discounts.* These are discounts which apply to all purchases made by a customer. They sometimes vary by format, and sometimes between albums and singles, but they do not vary from one recording to another. They depend on the bargaining power of the individual retailer and therefore, generally speaking (though not usually in any formal sense), on the amount of business in question. They are principally obtained by the retail chains—to a smaller extent by the independent retailers—and are mostly in the region of 6 to 8 per cent. File discounts have risen in recent years. [

Details omitted. See note on page iv.

] CDs used to attract a lower rate of file discount, but there has been a tendency to equalize the rate given to all formats. This equalization process has taken the form of a small fall in the discount for LPs and cassettes with a larger rise in that for CDs.

- (b) *Incentive discounts.* Small additional discounts, usually paid retrospectively against the achievement by the retailer of particular sales targets, are sometimes offered.
- (c) *Campaign.* Record company distributors conduct special sale campaigns, for instance prior to the Christmas season. Extra discounts of 15 per cent and upwards are offered to all customers on all product, including back catalogue, to encourage retail stocking. Similar discounts may be offered from time to time on specific product lines selected for promotion.
- (d) *Discounts* may be offered for new releases, both singles and albums. This is a major source of discounts for independent retailers, reflecting their important role in breaking new artists, and also recognizes the fact that they do not generally receive file discounts. It is usual to offer greater inducements to retailers to stock a new artist's album than a release from a major artist. Discounts will greatly vary between products, depending on the record company's view as to how much particular records need to be 'pushed'.
- (e) Wholesalers will normally receive a special discount in recognition of the work which they save the principal distributors in terms of breaking bulk and serving individual retailers.

7.30. Table 7.4 gives a matrix of the percentage value of average discounts on albums given by major record companies to their principal customers in 1992/93.

TABLE 7.4 Average discounts on sales of albums, 1992/93

	<i>per cent</i>				
	<i>BMG</i>	<i>EMI</i>	<i>PolyGram</i>	<i>Sony</i>	<i>Warner</i>
W H Smith	[
Our Price					
Virgin Retail					
HMV					
Average					
Other multiple retailers	<i>Figures omitted. See note on page iv.</i>				
Other retailers					
All retailers					
EUK					
TBD					
Other wholesalers					
All wholesalers]

Source: Record companies.

[Details omitted. See note on page iv.]

7.31. [

Details omitted. See note on page iv.

]

7.32. We have been told by both retailers and record companies that the benefits obtained by independent retailers in the form of free stock and one-off discounts on new releases are of the same order as those obtained by the larger retail chains. Indeed, one major record company calculated that in a recent year benefits given by it to major retailers,¹ as discounts, free stock, returns allowances and promotion contributions, came to the equivalent of a 13.7 per cent discount from dealer prices, compared with 14.2 per cent for independent retailers, in a similar calculation.

Returns

7.33. All record companies allow retailers full credit on the return of faulty products or those which have been wrongly delivered. On occasion, at the record company's discretion, it may allow a retailer to return product that has been accidentally overstocked. In addition, special 'privilege' returns allowances are individually negotiated. These may allow the retailer to return certain percentages of the value of stock of particular formats, or different percentages of turnover of albums and singles, or a certain percentage of overall turnover. Record companies inform retailers each quarter of their current privilege entitlement.

7.34. Stock sold in the course of a particular record company's campaign may attract a higher percentage of allowed returns. In the case of products merchandised through a television campaign, the record company may allow sale-or-return conditions on initial orders in order to encourage retailer stocking. In the case of retailers supplied by rack-jobbers, all product is supplied either on a sale-or-return or a sale-or-exchange basis.

¹Excluding Woolworths, because of the special distribution arrangements of that business.

7.35. We were told that the system of privilege returns is expensive for record companies. The product returned is often unfit for resale, and has to be laboriously checked in order to ascertain whether this is the case. Thus, from the record company's viewpoint the privilege returns allowance is as expensive as an ordinary discount (though it has the compensating commercial advantage to the record company of persuading the retailer to accept a higher level of stocks than it might otherwise take). From the retailer's viewpoint it reduces the risk of overstocking. While it is difficult to judge the monetary value to the retailer of this, we were told by one record company that W H Smith had negotiated away its privilege return entitlement in exchange for an increase in its file discount.

Free records

7.36. Part of record companies' discounts, especially on singles, are given in the form of free stock to retailers. This can take a variety of forms ranging from simply the supply of records for no charge to allowing an extra record for every ten bought. Free copies of new releases are distributed widely, as part of promotional activities, especially when the record company is trying to break a new artist. In view of the importance of getting new issues into the charts, record companies usually try to supply free singles (and, to a much smaller extent, albums) to those outlets that are willing to stock single records that are not in the charts and whose sales qualify for inclusion in the totals from which the charts are compiled. This is an important source of dealer price discounting to independents. W H Smith, J Menzies and Woolworths told us that they do not allow their outlets to accept free stock, because the practice distorts sales and stock records. Our Price said that it discourages its outlets from doing so, but that some of its stores are forced to participate in order to compete with local independents who can price singles keenly because they receive free stock.

Retail prices in the UK

7.37. Retailers purchase records at realized dealer prices and add their retail margin and VAT to arrive at the retail price charged to consumers.

7.38. As with dealer prices, retail prices are often categorized by certain retailers as 'full', 'mid' and 'budget'. There is usually also a special 'chart' price category and some retailers have a 'campaign' category used periodically for promotions. For an individual retailer each of these categories usually covers a range of prices, and different retailers appear to recognize different ranges. Table 7.5 compares the ranges currently recognized by different retailers.

TABLE 7.5 Some retailer price ranges

	£			
	<i>W H Smith</i>	<i>Our Price</i>	<i>Woolworths</i>	<i>Virgin</i>
<i>Chart</i>				
CD	11.99-13.99	10.99-13.99	10.99-13.49	11.99-12.99
Cassette	7.99- 9.99	7.99- 8.99	6.99- 8.49	8.49
<i>Full-price</i>				
CD	12.99-14.99	10+	9.49-14.99	13.49
Cassette	8.99-10.99	6+	6.49- 9.99	9.49
<i>Mid-price</i>				
CD	7.99-9.99	4-9.99	6.99-8.99	8.99-9.49
Cassette	4.99-6.99	3-5.99	5.49-5.99	5.99
<i>Budget</i>				
CD	3.99-5.99	to 3.99	4.99-5.99	3.99
Cassette	2.99-3.99	to 2.99	2.99-3.99	-

Source: Individual retailers.

7.39. Retailers told us that the prices that they charge are largely based on the dealer price structure. Typically, we were told, retailers work on a required percentage gross margin and apply this to the average realized dealer price, with the result being rounded to the nearest pricing point.¹ The required margin depends on various factors, including the product format, whether the product is chart or catalogue material, and whether the product is being specially promoted, for instance via a campaign. Retailers' gross margins on recorded music in 1992 ranged from 29 to 36 per cent (see Table 8.17).

7.40. Retailers usually offer records that are currently in the charts to customers at discounted prices (usually at least £1 to £2 lower than the normal 'full' price). We were told that this was mainly because a retailer who did not do the same would lose business to others. One retailer told us that it had tried to sell chart product at the full price but had lost too many customers to justify continuing the policy. We were also told that a reduction in retail price does not always increase sales volume sufficiently to maintain the retailer's gross margin. Later, often when the record leaves the charts, the retailer raises the price to the undiscounted full-price, until such time as the record is either deleted or re-released by the record company as a mid-price or budget recording.

7.41. Retailers said that record companies were aware of how published dealer prices were translated into retail prices; where record companies had a view on the desirable retail price for a product, they would set their dealer price at a level that would generate that retail price. The method by which retailers set prices also acts as a constraint on price-setting by the supplier since it discourages small price reductions which will not be translated into retail price reductions. For example, a retailer might resell all CDs bought in at between £7.58 and £7.85 at £13.99, or resell all those bought in at between £7.90 and £8.20 at £14.99. Consequently, a record company that reduces its price to the retailer risks finding itself at the bottom of the same price band as before with the result that the retail price will be unchanged. By the same token, a record company may increase its dealer price and find that the retail price remains the same. Therefore the record company has little incentive to make price reductions within the same price band.

Retail price movements

7.42. Table 7.6 shows the movement in the 'typical' price of full-price record albums, by format, since 1987, compared with the movement of the RPI over the same period. These typical prices have been estimated by the BPI.

TABLE 7.6 Typical retail prices* of full-price albums with adjustments for inflation

	LPs/cassettes			CDs		
	Typical retail price £	Price indices		Typical retail price £	Price indices	
Current prices		Adjusted for inflation [†]	Current prices		Adjusted for inflation [†]	
1987	6.49	100.0	100.0	10.99	100.0	100.0
1988	6.99	107.7	102.6	11.49	104.5	99.7
1989	7.99	123.1	108.8	11.99	109.1	96.5
1990	8.49	130.8	105.7	11.99	109.1	88.1
1991	8.99	138.5	105.7	12.49	113.6	86.7
1992	9.49	146.2	107.6	12.99	118.2	87.0

Source: Derived by MMC from BPI data.

*Not average prices. 'Typical' prices are estimated by the BPI, on the basis of knowledge and information supplied from its members.

[†]For RPI, see Table 5.3.

¹Usually £x.49 and £x.99, though £x.29 and £x.79 are also sometimes used (as is the case with HMV).

7.43. Table 7.6 indicates that typical retail prices of full-price albums in vinyl and cassette formats have been identical since 1987, increasing on average about 1.5 percentage points per annum faster than general inflation over the period to 1992. Much of the increase occurred in 1989, at the height of the consumer spending boom, when the 'typical' album price is judged by the BPI to have leapfrogged a major price point (rising from £6.99 to £7.99 in one year). Typical prices of CDs, which Table 5.4 shows have progressively accounted for a rapidly increasing share of total sales, fell quite steeply over the period. Between 1988 and 1991 in particular, the typical price of a full-price CD fell by 13 per cent in real terms. In 1987 the cost of a typical full-price CD album was over two-thirds higher than that of the same album in one of the other formats; by 1992 it was little more than one-third higher.

Record club pricing

7.44. Record clubs normally sell products which are regarded in the industry as full-price products; only occasionally are lower-price recordings featured. Prices quoted to record club members are comparable with OTC retail prices for catalogue product, and OTC retail prices are monitored for this purpose. The clubs' method of marketing (for example, an initial offer of five items for the price of one, with subsequent half-price or free offers once a contracted minimum number of full-price items has been purchased) means that average prices paid by club members are relatively low.

International comparisons of retail prices

7.45. In this section we examine the difference in the retail prices of recorded music between the UK and other countries. Unless otherwise specified we have converted prices into pounds sterling using the average exchange rate for the period 1 July 1993 to 31 December 1993 (£1=\$1.50).

7.46. Public concern about CD prices in the UK was an important factor leading to this inquiry. A Report of the National Heritage Committee of the House of Commons in May 1993¹ concluded that CD prices in the UK were too high. This conclusion seemed to rest in part on evidence from Consumers' Association, and in part on the NHC's own examination of prices, which indicated a significant difference between the price of CDs in the UK and the price of CDs in the USA.

7.47. The Consumers' Association, in its evidence to the NHC, reported a survey it had carried out of the retail prices of five titles in five shops in London and in eight shops in New York in January 1993. It concluded that at the then current exchange rate (February 1993: £1=\$1.45) CD prices in the USA were 70 per cent of those in the UK (ie UK prices were 43 per cent higher than those in the USA). No allowance was made for differences in sales taxes between the UK and the USA (paragraph 3, page 22, NHC Report).

7.48. The NHC was aware of the importance of allowing for sales tax differences but no survey of retail prices was carried out. The price information presented in its report was based on the dealer list prices charged by record companies and their suggested retail prices (Tables 1 and 2, page viii, NHC Report).

7.49. With the 'Full-Line' category treated as the standard, this evidence showed that a CD was selling at a suggested retail price of \$13.99 in the USA (£8.91 at the current exchange rate (May 1993: £1=\$1.57)) and a suggested retail price of £11.74 in the UK. Our understanding is that these prices did not include sales taxes in either country. On this basis CD prices in the USA were 76 per cent of those in the UK (ie US prices were 24 per cent lower than those in the UK).

7.50. This evidence provides a very limited basis on which to draw conclusions about comparative prices. We have therefore sought to establish the extent of price differences between the UK, the USA and other countries for ourselves. We commissioned BMRB International to undertake a survey of retail prices in a number of countries. Our intention was to carry out as full a survey as possible within the limits of the time and resources available to us. We wished to include a greater number of titles and retail outlets than were covered in the NHC Report.

¹See footnote to paragraph 2.2.

The BMRB survey of international prices

7.51. The survey that BMRB carried out for the MMC is described in Appendix 7.2. In the following section we briefly consider the method used before we turn to the results of the survey.

The method of surveying retail outlets

7.52. In its survey, BMRB compared the retail prices of pre-selected full-price album titles, for both CD and cassette formats, across five countries (UK, USA, Germany, France and Denmark) in September 1993. A follow-up survey of the same titles covering the UK and the USA was carried out in November 1993 as a check on the main survey (see Appendix 7.3).

7.53. Information was collected from a sample of retail outlets in each country (250 in the UK and the USA, 100 in each of the other countries) covering three types of full-price sales, namely (a) eight specified pop titles, (b) chart titles in the various national album pop charts, and (c) three specified classical titles. Mid-price and budget titles were not included in the survey for the following reasons. First, full-price titles, including both chart and catalogue, account for most sales. In the UK, sales of full-price album titles accounted for about 80 per cent of sales by trade value in 1993 (see Table 5.11). Secondly, we considered that any anti-competitive activity might well affect full-price sales rather than mid-price or budget sales. Thirdly, the definitions of price categories vary between countries and records may be released in different categories in different countries. We also had to take into account the costs we could reasonably incur in an exercise of this kind.

7.54. Since artists vary widely in their international appeal, each of the eight pop titles was by an artist with an international following. They were drawn from short-lists provided by the major record companies. However, national tastes differ and the selected artists' records may not have achieved the same popularity in each country. Nor, at the time of the survey, were the selected artists' records necessarily at the same point in their life cycle. In order to overcome these problems, three chart titles were also selected: those in positions 1, 5 and 10 in the various national charts at the time of the survey. Titles in the charts account for a significant proportion of sales. Titles appearing in the UK Top 40 in 1992 accounted for about 36 per cent of sales (paragraph 5.149).

7.55. As explained in Appendix 7.2, there were problems with collecting prices for the classical titles and no results are presented below. With the help of the major record companies and a number of major retailers we carried out a further exercise to provide some comparison of prices of classical titles in the UK and the USA (see paragraphs 7.68 to 7.70).

7.56. The major record companies were invited to comment on the survey method. They had three main reservations. First, the number of titles in the sample was too small to provide a representative picture of the relative prices of full-price titles. Secondly, a comparison based on weighted average prices between countries might be more meaningful than a comparison based on full-price titles only. Thirdly, the geographical coverage of the survey in the USA focused on large urban locations and excluded smaller urban locations and rural areas in which a considerable proportion of the US population lives (see paragraphs 12.51 to 12.63).

Sales taxes and exchange rates

7.57. In presenting the results we have recognized two important factors that affect a comparison of prices between countries but are outside the control of companies selling goods—sales taxes and exchange rates.

7.58. Sales taxes vary between countries and affect the retail price. In order to ensure that the results are presented on a comparable basis any sales taxes included in the retail prices obtained in the survey have been removed. All results are presented on a without-tax basis.

7.59. Exchange rates fluctuate over time for a number of reasons. It is important to ensure that the exchange rates used to convert prices to a common currency are not the result of a short-term fluctuation. The exchange rates used in the conversion of prices in local currencies to pounds sterling are the average of rates from July to December 1993 (see Appendix 7.2, paragraph 53).

7.60. The results of the BMRB survey are presented below along with other relevant evidence. Given the importance of this aspect of our study, prices in the UK and the USA are considered first. We then turn to the comparison of prices in the UK and other European countries.

Price comparisons between the UK and the USA

Evidence from the BMRB survey

CDs

7.61. The average prices for the selected full-price pop CD titles without tax and adjusted to pound sterling equivalents in each country covered in the survey are presented in Table 7.7. For ease of comparison the results are presented as indices in Table 7.8. For the average of all the pop CD titles, US prices were lower than the UK by 8 per cent and the average prices in the other countries were higher than those in the UK. The US price is lower than the UK price for each title, with the difference varying from 13.3 to 0.3 per cent.

TABLE 7.7 Average price of full-price popular CDs*

	£				
	UK	USA	France	Germany	Denmark
<i>Pre-selected titles</i>					
<i>Diva</i> -Annie Lennox	11.78	10.21	13.03	11.23	11.38
<i>Soul Dancing</i> -Taylor Dayne	11.25	9.83	12.87	11.19	11.58
<i>Zooropa</i> -U2	10.22	9.85	11.88	10.72	11.33
<i>Keep the Faith</i> -Bon Jovi	10.56	10.53	12.81	10.89	11.50
<i>River of Dreams</i> -Billy Joel	10.33	9.45	11.74	10.75	11.28
<i>Timeless</i> -Michael Bolton	11.26	10.45	12.41	11.00	11.28
<i>Tubular Bells II</i> -Mike Oldfield	11.71	10.21	12.71	10.92	11.25
<i>What's Love Got To Do With It?</i> - Tina Turner	10.06	9.67	13.12	11.15	11.44
Column average (pre-selected titles)	10.90	10.03	12.57	10.98	11.38
<i>Chart titles</i>					
Number 1	10.34	9.69	11.89	10.82	11.34
Number 5	10.15	9.49	12.48	10.59	11.24
Number 10	10.43	9.65	12.04	10.81	11.49
Column average (chart titles)	10.31	9.61	12.14	10.74	11.36

Source: BMRB survey.

*Prices are without taxes.

†Exchange rates used for conversion to pounds sterling are the average of those prevailing between 1 July and 31 December 1993.

TABLE 7.8 Indices of average prices of full-price popular CDs

	UK	USA	France	Germany	Denmark
<i>Pre-selected titles</i>					
<i>Diva</i> -Annie Lennox	100.0	86.7	110.6	95.3	98.6
<i>Soul Dancing</i> -Taylor Dayne	100.0	87.4	114.4	99.5	102.9
<i>Zooropa</i> -U2	100.0	96.4	116.2	104.9	110.9
<i>Keep the Faith</i> -Bon Jovi	100.0	99.7	121.3	103.1	108.9
<i>River of Dreams</i> -Billy Joel	100.0	91.5	113.6	104.1	109.2
<i>Timeless</i> -Michael Bolton	100.0	92.8	110.2	97.7	100.2
<i>Tubular Bells II</i> -Mike Oldfield	100.0	87.2	108.5	93.3	96.1
<i>What's Love Got To Do With It?</i> - Tina Turner	100.0	96.1	130.4	110.8	113.7
Average (pre-selected titles)	100.0	92.0	115.4	100.8	104.4
<i>Chart titles</i>					
Number 1	100.0	93.7	115.0	104.6	109.7
Number 5	100.0	93.5	123.0	104.3	110.7
Number 10	100.0	92.5	115.4	103.6	110.2
Average (chart titles)	100.0	93.2	117.8	104.2	110.2

Source: BMRB survey.

7.62. The average prices for chart titles are shown in Table 7.7 and are expressed in index form in Table 7.8. Chart titles are normally the subject of promotions and discounts. This accounts for the generally lower level of prices for chart titles than for catalogue titles. The results for the chart titles show the same pattern of price differences as those for the pop titles although the average price difference between the USA and the UK is slightly less (6.8 per cent). Figure 7.3 shows the variation in average prices for pre-selected and chart CD titles for the UK and the USA.

Cassettes

7.63. As regards cassette prices the general pattern is similar to that for CDs (see Tables 7.9 and 7.10). However, the price differences between UK and the USA are generally greater for cassettes than for CDs (12.9 per cent lower in the USA for pre-selected titles, 8.1 per cent lower for chart titles).

TABLE 7.9 Average price of pre-selected full-price popular cassettes*

	UK	USA	France	Germany	Denmark
<i>Pre-selected titles</i>					
<i>Diva</i> -Annie Lennox	8.11	6.79	7.62	7.62	9.21
<i>Soul Dancing</i> -Taylor Dayne	7.91	6.67	7.55	7.79	9.33
<i>Zooropa</i> -U2	7.07	6.39	7.62	7.77	9.28
<i>Keep the Faith</i> -Bon Jovi	7.30	6.80	7.83	7.85	9.48
<i>River of Dreams</i> -Billy Joel	7.12	6.17	7.32	7.71	9.30
<i>Timeless</i> -Michael Bolton	7.76	6.79	7.77	7.72	9.29
<i>Tubular Bells II</i> -Mike Oldfield	8.13	6.80	7.91	7.72	9.27
<i>What's Love Got To Do With It?</i> - Tina Turner	7.24	6.42	8.58	7.96	9.33
Column average (pre-selected titles)	7.58	6.60	7.78	7.77	9.31
<i>Chart titles</i>					
Number 1	7.03	6.31	10.47	7.75	11.41
Number 5	6.56	6.34	7.74	7.60	9.28
Number 10	7.27	6.51	7.65	7.61	9.32
Column average (chart titles)	6.95	6.39	8.62	7.65	10.00

Source: BMRB survey.

*Prices are without taxes.

†Exchange rates used for conversion to pounds sterling are the average of those prevailing between 1 July and 31 December 1993.

TABLE 7.10 Indices of average prices of full-price popular cassettes

	UK	USA	France	Germany	Denmark
<i>Pre-selected titles</i>					
<i>Diva</i> -Annie Lennox	100.0	83.7	94.0	96.4	113.6
<i>Soul Dancing</i> -Taylor Dayne	100.0	84.3	95.4	98.5	118.0
<i>Zooropa</i> -U2	100.0	90.4	107.8	109.9	131.3
<i>Keep the Faith</i> -Bon Jovi	100.0	93.2	107.3	107.5	129.9
<i>River of Dreams</i> -Billy Joel	100.0	86.7	102.8	108.3	130.6
<i>Timeless</i> -Michael Bolton	100.0	87.5	100.1	99.5	119.7
<i>Tubular Bells II</i> -Mike Oldfield	100.0	83.6	97.0	95.0	114.0
<i>What's Love Got To Do With It?</i> - Tina Turner	100.0	88.7	118.5	109.9	128.9
Average (pre-selected titles)	100.0	87.1	102.6	102.8	122.8
<i>Chart titles</i>					
Number 1	100.0	89.8	148.9	110.2	162.3
Number 5	100.0	96.6	118.0	115.9	141.5
Number 10	100.0	89.5	105.2	104.7	128.2
Average (chart titles)	100.0	91.9	124.0	110.3	114.0

Source: BMRB survey.

7.64. The result of taking a simple average of all the pre-selected and chart titles shown in Tables 7.7 and 7.9 is that full-price pop CD prices in the USA were 7.7 per cent lower than in the UK and cassette prices were 11.7 per cent lower.

7.65. The follow-up survey of the same titles, which was carried out for a more limited number of retail outlets in the UK and USA in November 1993, confirmed the evidence of the first survey (see Appendix 7.3).

Other evidence

7.66. This section concentrates on the full-price category to provide a comparison with the results of the BMRB survey. To allow comparability, all prices are without tax and converted to pounds sterling at the exchange rates used for the BMRB results.

Classical prices

7.67. In order to obtain detailed information on pricing of classical recordings on sale in CD format in the full-price range, we carried out a small survey of pricing among five major retailing groups covering sales of 53 selected classical titles in December 1993. Titles were selected from lists of classical recordings provided to us by each of the five major record companies.

7.68. After eliminating observations for recordings which were no longer selling in the full-price range in the UK or in the USA, it was possible to compare the prices for 53 separate recordings (see Appendix 7.4). In the case of 27 of these, identical recordings were on sale in at least two of the store groups in both the UK and the USA, while the other 26 provided examples of price quotations for recordings of similar status which were available in one or other country but not both.

7.69. Using an exchange rate of £1=\$1.50, the average price in the UK without tax came to £12.32 for the 27 items available in both countries, while the corresponding average US price was £9.74. Averaging over all the recordings in the survey which were available in either or both countries produced little change to this picture, with corresponding figures of £12.37 and £9.71 respectively.

7.70. On average US prices for full-price classical recordings available in both countries were 20.9 per cent lower than those of the UK on a without-tax basis. One price marking, which was very common in

particular stores in the US section of the survey, was \$14.99 dollars (without tax)- equivalent to £9.99 (without tax). In the UK two price markings were frequently noted, and these were £14.99 (including tax) and £14.49 (including tax), equivalent to £12.76 (without tax) and £12.33 (without tax) respectively.

Sony retail price survey

7.71. Sony carried out a survey of the prices of a sample of its own pop and classical titles in the UK and the USA (see Appendix 7.5). On the basis of weighted average prices of full-price titles, prices in the USA were 5.8 per cent lower than in the UK for CDs and 11.0 per cent lower than in the UK for cassettes. These price differences are of the same order as those found in the BMRB survey.

7.72. On the basis of weighted average prices of all the Sony pop CD titles surveyed (ie both full-price and mid-price), the price in the USA was 5.6 per cent lower on average than that in the UK. On a similar basis, the prices of Sony's pop cassette titles in the USA were 10.9 per cent lower on average than those in the UK.

7.73. As regards Sony's classical titles, the average price of full-price CDs was 12.9 per cent lower in the USA compared with the UK and the average price of full-price cassettes was 18.3 per cent lower. For all classical CD titles, on average US prices were found to be 7.0 per cent lower than the UK prices, and for all classical cassette titles average US prices were 14 per cent lower.

7.74. Since this survey was confined to the titles of a single company, the results may not be representative of the overall price differences between the USA and the UK.

Summary of UK/US retail price comparisons

7.75. Table 7.11 brings together the evidence of retail prices in the UK and the USA from the BMRB survey, the MMC's survey of classical titles, and Sony's survey. The Sony evidence supports the findings of the BMRB survey that the prices of full-price pop CDs and cassettes are lower in the USA than in the UK and that the difference in price is greater for cassettes than for CDs. As regards classical titles, the findings of the Sony survey of average prices for full-price titles support the findings of the MMC's classical survey that the prices of full-price titles are lower in the USA than in the UK.

TABLE 7.11 Percentage by which US retail prices are lower than those of the UK

Study	Full-price				All prices categories			
	Non-classical		Classical		Non-classical		Classical	
	CD	Cassette	CD	Cassette	CD	Cassette	CD	Cassette
BMRB	7.6	11.6	-	-	-	-	-	-
MMC (classical)	-	-	20.1	-	-	-	-	-
Sony	5.8	11.0	12.9	18.3	5.6	10.9	7.0	14.0

Source: MMC from market research survey and company information.

Possible reasons for the difference in the prices of recorded music in the USA and the UK

7.76. A variety of factors will affect the supply and demand conditions for goods and hence their prices. To the extent that these factors differ between countries so will the prices ruling in each market. On the demand side, the record companies told us that willingness to pay for recorded music differs between the USA and UK because of differences in income levels, and tastes, and the available range and relative prices of alternative leisure products.

7.77. On the supply side the record companies provided us with a number of reasons why the prices they charged retailers may be lower in the USA than in the UK (see paragraphs 12.64 to 12.69). These concerned differences in the services provided to retailers, in the level of royalties, and in the relative size of the markets which led to economies of scale in the USA that reduced the cost and risk of supply. As for the retail margin, record retailers and others directed our attention to various comparisons of retail prices in the USA and the UK such as the report by McKinsey & Co.¹ A number of reasons have been suggested why the cost of retailing may be lower in the USA. These include lower property costs and higher staff productivity.

7.78. All these speculations are prompted by the perceived differences in prices between the USA and the UK. They hinge on the exchange rate selected. We now turn to the problems this poses.

International price comparisons and the exchange rates

7.79. When comparing prices of recorded music in different countries, an exchange rate must be chosen to convert those prices into a common currency. The difficulty of choosing any one exchange rate for price comparisons in a period of floating exchange rates is that the exchange rate fluctuates frequently over time. Local prices of recorded music are set at intervals to reflect conditions in the national market, so changes in exchange rates do not affect them. Hence, merely because of exchange rate fluctuations, a price comparison on one date may give apparently quite different results from one on another date. Thus if the exchange rate used in comparing the prices identified in the BMRB study was £1=\$1.75, we would have concluded that the prices of full-price pop CDs were some 20 to 22 per cent lower on average in the USA. Alternatively, if the exchange rate we had used was £1=\$1.25, US prices would be 10 to 12 per cent higher than UK prices.

7.80. The importance of the choice of the exchange rate used in making price comparisons is clearly demonstrated in the examples given above. The difficulty of settling on any one rate is shown by Figure 7.4 which presents the sterling/dollar exchange rate since 1983. Sterling depreciated to a low of £1=\$1.12 in the first quarter of 1985 and subsequently rose to a high of £1=\$1.94 in the fourth quarter of 1990. Following its exit from the ERM in September 1992, sterling depreciated against the dollar, though the rate in 1993 was fairly stable around £1=\$1.50.

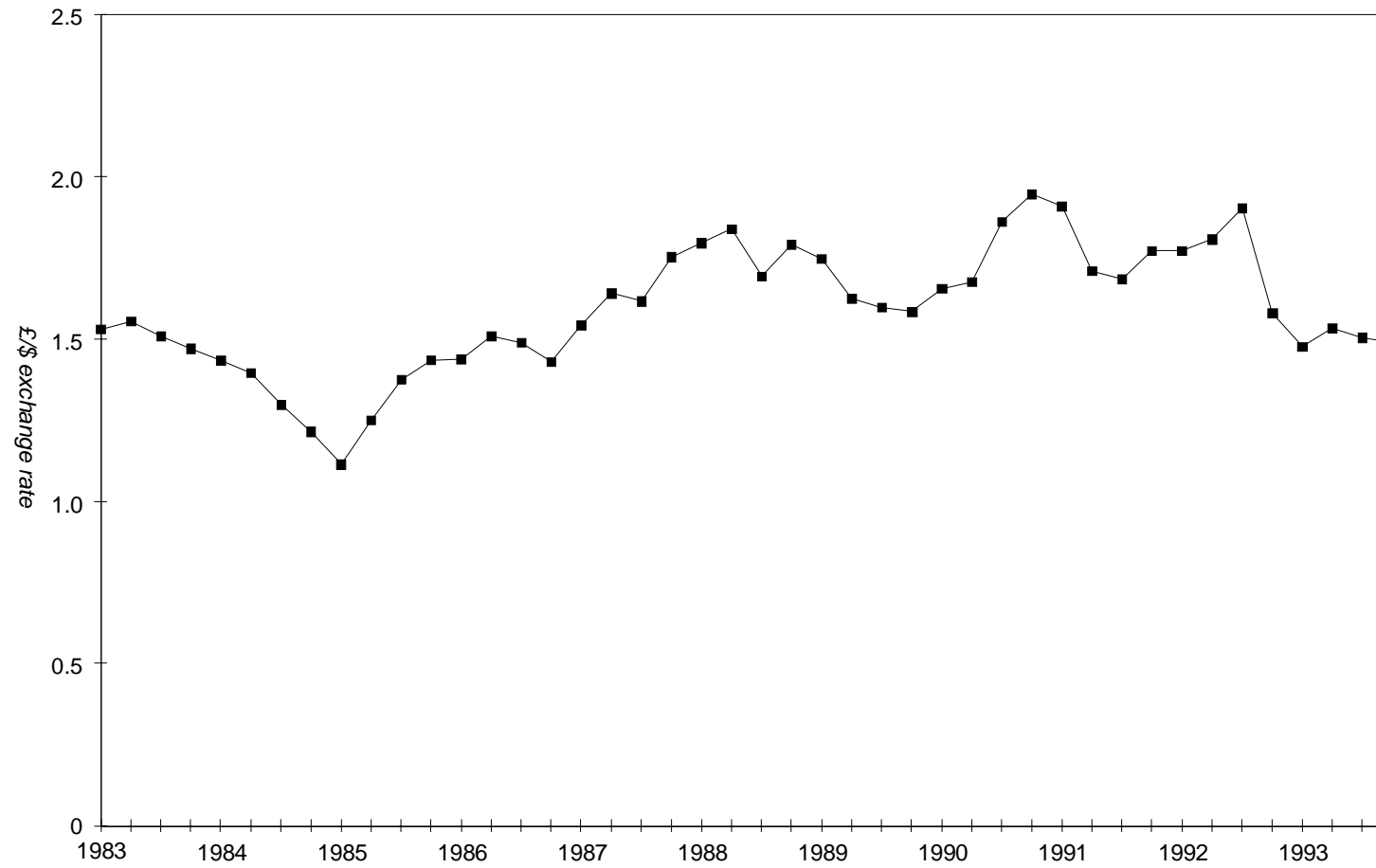
7.81. Under a system of floating exchange rates, differences in the rates of inflation between countries may be expected, over a number of years, to be reflected in the movements of exchange rates, the latter in effect to compensate for the former. Similarly, over a number of years exchange rates can be expected to adjust to other factors, such as differing monetary and fiscal policies, which also cause them to fluctuate. But at any point in time it is impossible to know whether the current exchange rate is approaching a sustainable long-term rate between two currencies. We have attempted to overcome this as far as possible by using the average £/\$ rate for the second half of 1993. A six-month average will eliminate short-term fluctuations in the exchange rate and would be a reasonable rate for use by those contemplating the importation of goods.

7.82. Some record companies suggested to us that, given the difficulties of using market exchange rates, we should use purchasing power parities (PPPs) in making international price comparisons. The PPP between two countries is the 'exchange rate' at which the expenditure weighted price of a basket of goods would be the same in the two countries. In effect, use of PPPs stands the exchange rate problem on its head. Instead of trying to choose an appropriate rate for international price comparisons from observations of market exchange rates, it compares directly what consumers can buy with their money in different countries. The exchange rate which equalizes the prices of the same basket of goods in each country can then be used for making international price comparisons. As estimates of PPPs between the UK and the USA have for the last few years been consistently below the market exchange rate, making price comparisons using market exchange rates inevitably leads to the conclusion that goods are more expensive in the UK.

¹See *Financial Times*, 28 June 1993, page 7.

FIGURE 7.4

UK/US exchange rate, 1983 to 1993



Source: MMC from Bank of England information.

7.83. There are no generally accepted PPP exchange rates available. There are various different estimates of PPPs, each of which provides different results. EMI suggested to us three alternative PPP measures: the purchasing power parity estimate made by Goldman Sachs in June 1993 (£1=\$1.32), the estimates made by Credit Suisse First Boston in the quarter to September 1993 (£1=\$1.21), and the rate derived from the *Economist* newspaper's 'Big Mac' index in April 1993 (£1=\$1.27). The first two of these estimates build on the work of the Organization for Economic Co-Operation and Development (OECD) which provide measures of PPPs, derived by directly comparing the domestic price of a homogenous basket of goods and services in each country, for particular bench-mark years. The OECD figures are adjusted to exclude non-tradeable goods and services and extrapolated forward using price index data in each country. The 'Big Mac' index is based on the local price of the McDonalds Big Mac hamburger around the world. The Big Mac is often described as the perfect universal commodity, produced locally in over 50 countries. As such it is said to reflect local labour and space costs and the general price level of consumer goods around it.

7.84. Clearly, using the PPP exchange rates rather than market exchange rates would provide a very different picture of the relative prices of recorded music in the UK and USA. For example, if we use the Goldman Sachs estimate of the PPP (£1=\$1.32) then for the eight pre-selected pop titles in the BMRB survey, the average price in the USA is some 4.6 per cent higher than the price in the UK. This compares with the US prices being some 8 per cent lower if the average of the market exchange rate of the second half of 1993 (£1=\$1.50) is used.

The Management Horizons study of price differentials for other products

7.85. In order to assess whether the relative pricing of recorded music in the UK compared with the USA was out of line with the relative prices of other products on sale in those countries we arranged for a survey to be carried out by the specialist retail consultancy, Management Horizons. It carried out a price audit on a predefined carefully matched basket of manufactured leisure goods, sold in similar price ranges to recorded music, in late November and early December 1993. An account of the Management Horizons survey is included in Appendix 7.6.

7.86. On average, US prices (without tax and using the same exchange rate as the BMRB survey) across the items in the survey were 8 per cent lower than the corresponding goods in the USA. For ten of the fourteen product groups covered in the survey, on average US prices were between 3 and 14 per cent lower than the UK.

Comparisons between the UK and other European countries

7.87. We turn now to consider the evidence provided by the BMRB survey of retail price differences between the UK and other European countries.

CDs

7.88. The results of the BMRB survey show that for full-price pop CDs, average retail prices were higher in each European country (see Tables 7.7 and 7.8). The prices of the pre-selected titles were on average 0.8 per cent higher in Germany than in the UK, 4.4 per cent higher in Denmark, and 15.4 per cent higher in France. As regards individual pop titles, the UK price was lower than the price in France for each title, but the UK had higher prices for four titles compared with those in Germany and higher prices for two titles compared with those in Denmark.

7.89. The results for chart CD titles show the same pattern but the price differences were greater. Prices were 4.2 per cent higher in Germany, 10.2 per cent higher in Denmark, and 17.8 per cent higher in France.

Cassettes

7.90. As regards full-price pop cassette prices, compared with the UK prices were higher in France,

Germany and Denmark (see Tables 7.9 and 7.10). While the difference in average cassette prices between the UK and Germany is similar to that for CD prices, the difference between the UK and France is narrower (2.6 per cent), and between the UK and Denmark, wider (22.8 per cent).

7.91. There was a similar pattern for average chart prices but the differences between the UK and the other countries were greater. The average cassette price for chart titles in Denmark was 43.9 per cent higher than in the UK.

Comparison of format prices

7.92. A comparison of average CD prices and average cassette prices for each country shows that in the UK the average CD price is about 44 per cent higher than the average cassette price. In the USA the average CD price is 52 per cent higher than the average cassette price (see Table 7.12). Of all the countries in the survey France had the greatest difference (62 per cent) and Denmark the lowest (22 per cent).

TABLE 7.12 Comparison of average CD and cassette prices (all pre-selected popular titles)

	<i>UK</i>	<i>USA</i>	<i>France</i>	<i>Germany</i>	<i>Denmark</i>	<i>Total</i>
Average CD price (£)	10.90	10.03	12.57	10.98	11.38	11.17
Average cassette price (£)	7.58	6.60	7.78	7.77	9.31	7.81
Percentage by which average CD price is greater than average cassette price	43.8%	52.0%	61.6%	41.3%	22.2%	43.0%

Source: MMC from BMRB survey.

International comparisons of dealer prices

7.93. Here we look at the prices that record companies charge retailers for the supply of records. We did not carry out a study of realized dealer prices but we obtained information from a number of sources. This information is described below. To facilitate comparison, all prices have been converted into pounds sterling using the average exchange rate for the period 1 July to 31 December 1993.

Information from Understanding and Solutions

7.94. Understanding and Solutions (USS), a market research consultancy specializing in media and entertainment, has provided us with estimates of weighted average realized dealer prices charged by record companies for CDs in a number of countries. It estimated that in 1992 average prices were lower in the UK than in the USA and the other major European countries apart from Spain (see Table 7.13).

TABLE 7.13 Understanding and Solutions, estimates of average realized dealer prices, 1992

<i>In pounds</i>		<i>Indices (UK=100)</i>	<i>Total</i>
UK	5.52	UK	100
USA	6.09	USA	110
France	7.55	France	136
Germany	6.30	Germany	115
Denmark	7.22	Denmark	130
Sweden	6.24	Sweden	113
Norway	6.50	Norway	117
Italy	6.48	Italy	117
Spain	4.99	Spain	90

Source: MMC, using information provided by USS.

Note: Calculations are based on average exchange rates from July to December 1992.

Information from PolyGram

7.95. PolyGram calculated its average realized dealer CD prices for 20 countries for the year ending September 1993. It also calculated average realized prices by price category (ie full-price, mid-price and budget). The results are set out in Appendix 7.7.

7.96. In respect of all price categories for both popular and classical CDs, the average realized dealer price in the USA was 12 per cent higher than that in the UK. The UK had the third lowest average price (after Sweden and Germany) of all the countries covered in the study. Japan had the highest average price (Table 7.14).

7.97. Taking all popular CDs, the average price was 12.0 per cent higher in the USA compared with the UK, and for classical CDs the average US price was 13.0 per cent higher compared with the UK.

7.98. Taking each price category separately, price differences between the USA and the UK show considerable variation. For full-price popular CDs, the average realized dealer price in the USA was 7 per cent lower than that in the UK. For full-price classical CDs, the US price was 5 per cent higher than that in the UK. At mid-price, prices for popular and classical CDs were higher in the USA than the UK by 10 per cent and 5 per cent respectively. Differences were greatest in the budget category where US prices for popular CDs and classical CDs were some 250 per cent and some 25 per cent greater respectively than those in the UK.

7.99. Relative to all the countries in the study, PolyGram's average realized dealer prices in the UK were amongst the lowest in the full-price and mid-price categories and were the lowest in the budget category.

7.100. PolyGram acknowledges that its results may not be representative of the market as a whole because of differences in the proportions of records sold by PolyGram in each price category compared with the overall market in each country. In the UK PolyGram sells an average of 38 per cent of units below full-price while the other majors only sell an average of 22 per cent in this way.

Information from EMI

7.101. EMI calculated average realized dealer CD prices for its total sales in the countries covered by the BMRB survey, and also in the Netherlands and Japan, in the year ending 31 March 1993. The UK had the lowest average realized dealer price for CDs.

7.102. As regards the UK and the USA, the average realized dealer price of CDs in the UK was 12.2 per cent lower than in the USA. This finding is broadly in line with that of PolyGram (paragraph 7.96) and may again reflect the greater number of budget sales in the UK compared with the USA. EMI did not provide results by price category.

Summary of evidence

7.103. Table 7.14 summarizes the information on the overall realized dealer prices of CDs from USS, PolyGram and EMI. It shows that on the basis of these estimates, the average realized dealer price in the UK was lower than that in the USA and most other countries.

TABLE 7.14 **Average realized dealer prices* of CDs**

Source		UK	USA	France	Germany	Denmark	Japan	Sweden
USS	Average price (£ sterling)	5.51	6.09	7.54	6.35	7.22	-	6.24
	Indices (UK = 100)	100	110	136	115	130	-	113
PolyGram	Average price (£ sterling)	5.37	6.06	6.82	5.23	6.01	9.56	4.83
	Indices (UK = 100)	100	112	127	97	111	178	89
EMI	Average price (£ sterling)	5.34	6.08	7.54	6.98	6.85	8.81	-
	Indices (UK = 100)	100	114	141	131	128	165	-

Source: MMC, based on information supplied by USS, PolyGram and EMI.

*Based on average sterling exchange rates for the period July to December 1993.

7.104. The other major record companies also provided some information on their realized dealer prices in different countries. This showed a similar pattern of price differences between countries.

7.105. While the use of dealer price information from individual record companies allows some international comparison of dealer prices, it suffers from a number of drawbacks. First, the pattern of sales of one company might not be representative of the pattern for the overall market in a country. Secondly, differences in average realized dealer prices between countries partly reflect the different mixes of full-price, mid-price and budget-price records sold in each country. The proportions of albums sold at full-price, mid-price and budget-price in the UK in 1993 were 70 per cent, 14 per cent and 16 per cent respectively (Table 5.11). For classical records the proportion of mid-price and budget albums was 55 per cent (Table 5.14). We do not have the comparable percentages for the USA but we understand from the record companies that the percentages for mid-price and budget categories taken together are lower than in the UK. This is supported by the US/UK figures in Table 7.14 which show lower average prices for the UK.